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CONTENTS

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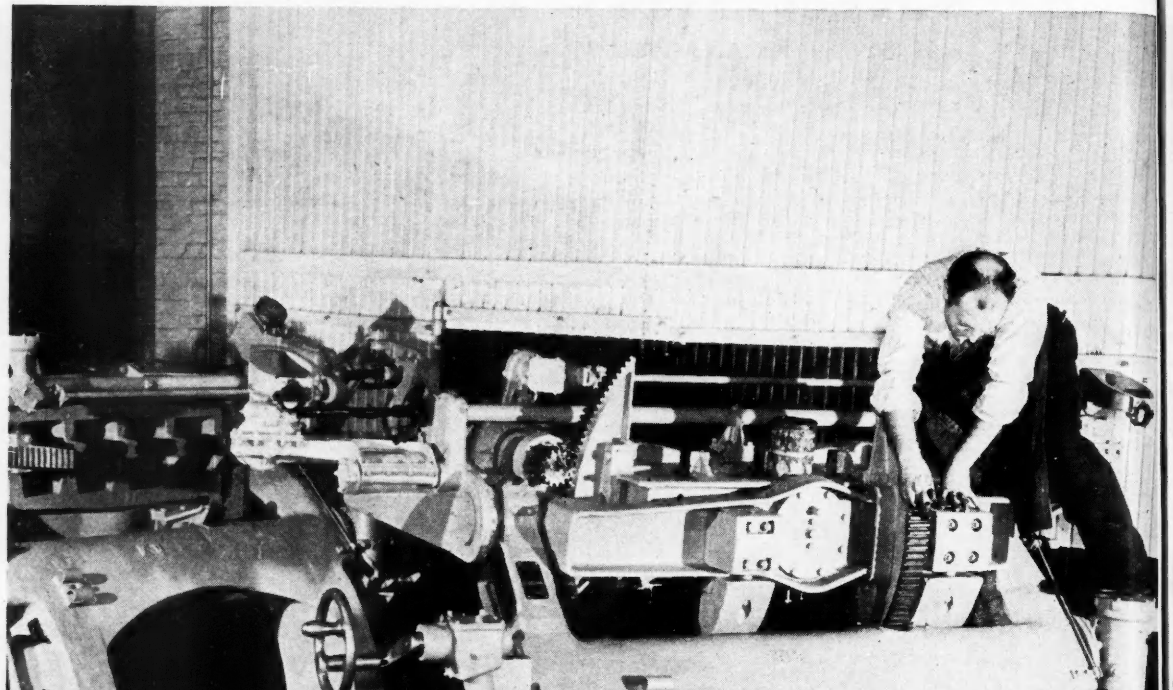
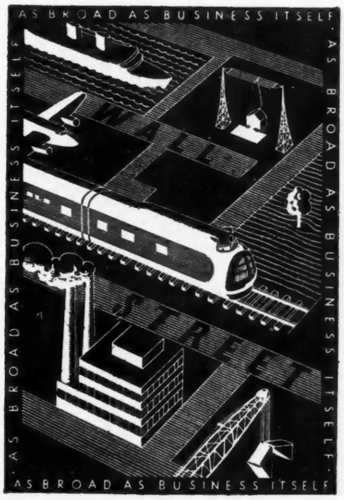


This testing operation in a Westinghouse Electric Elevator ordnance plant is probably less than a one-trillionth part of American industry's fantastic preoccupation with war. It will end—perhaps sooner than you think. What then? What of industry's status in the post-war "transition phase?" What of markets? What of your investments? For some of the answers, read the article beginning on page 280.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* — Laurence Stern, *Managing Editor*



The Trend of Events

TAX PROSPECTS . . . Investors — and the general public—may take some comfort in the fact that tax prospects for some time ahead are subject to much less uncertainty than has been usual at this season in prior years. It is agreed, by the Treasury and Congressional leaders, that the legislation to be considered in late summer or autumn will not be applicable to 1943 personal or corporate incomes. In most previous years since 1933 "retroactive" tax increases had been adopted in the closing months of the year.

We know that the Administration's demand for additional tax revenue has been reduced to $12 billion, and that the Congressional tax committee heads have no notion—as they frankly state—of adding more than $5 billion, at the outside, to the tax structure. Since the election will be less than a year ahead when the new program reaches its final legislative phases — and since the war in Europe *may* by then have ended—it seems a bit speculative at this time to figure on even a $5 billion tax boost.

So far as corporations are concerned, we know it is a virtual certainty that the 80 per cent (effective) tax ceiling will not be raised—leaving as the only uncertainty the question whether the present 40 per cent combined normal and surtax rate may be increased to 45 or 50 per cent.

Just ahead of us is the start of "pay-go" tax collections at a blanket rate of 20 per cent of wages and salaries, after varying individual exemptions. For the majority of wage and salary earners this works out to a net tax of about 12 per cent; and is no more on an annual basis than they would have been obligated to pay anyway under the previous system. Nevertheless the repercussions upon retail trade and the temper of organized labor will bear watching.

The year 1943 will pass into history with the "inflation gap" widened, not narrowed; and the odds are against application to 1944 incomes of any radical new tax devices such as Senator Clark's proposed excess personal income tax or the Treasury's proposed graduated spendings tax. This being so, we probably will have won the war while the many critics of "loose fiscal policy" are still clamoring in vain for "heroic taxes" and forced savings. If $12 billion in new taxes for 1944 is the only thing standing between us and a run-away war-time price inflation, it appears that the battle has already been as good as lost. But on this we have our fingers crossed. We have a notion that the defeat of Germany will have more to do with inflation realities in 1944—if not sooner—than all the plans—or planlessness—at Washington.

A MASTER HAND . . . The need to formulate a price policy that will work has marked the recent shifts and innovations in Washington, culminating in the Byrnes super-Agency. Until now one succession of phantoms has followed another, each with a higher sounding title and a more inclusive nominal *role*, but each more ineffective than the last. Since 1919

Mr. Bernard Baruch has urged the preparation of our economy for war, whether the policy were to embrace stockpiles, or to implement substitutes, or to condition finance, and he has asked that this defense mechanism be integrated into our governmental structure along with the more normal civilian departments and policies.

In other words Mr. Baruch has seen, prophetically, and urged scientifically the common sense dictum that it is futile to have a permanent war and navy department, and a permanent and extensible armed force, without a corresponding organization of industry and finance to cope with the very situations contemplated by our military budgets. For twenty years he was a voice in the wilderness. His fine, practiced mind was inclusive: Labor's content and capital's incentive he equally contemplated, but the central fact that we lived in an age of danger was never lost sight of. As it is, we have an improvised economy to cope with a historical issue that children could have foreseen.

Late, but not too late, he has been called in to deal with a situation that is so much more difficult to control because he was unheeded. It is to be hoped that instead of vague populist ukases, unenforceable regulations, mountains of paper questionnaires, reports and records, that a plan will be worked out to restrain inflation and stimulate production, without permitting withholding because a minimum price is assured and hence the hoarder and forestaller has all the odds. No one is better fitted than Mr. Baruch to battle with the problem; let us hope that the disorganization has not got so far as to render his best efforts merely partial.

DELIVERING THE GOODS . . . The synthetic rubber program got off to a delayed and muddled start, and thus far the actual output has been only about 25,000 tons. But present monthly production is not the decisive question. The significant thing is the rate of completion of the new plant facilities. We have the public word of Administrator William H. Jeffers—a hard-headed, hard-driving executive who is in the habit of knowing what he is talking about—that the program is clicking and on the verge of a huge and progressive increase in output.

Mr. Jeffers states confidently that the United States will turn out 250,000 tons of synthetic rubber this year, which means that production in the second half of the year must reach an annual rate of nearly 500,000 tons. He says further that production next year will reach an annual rate of 850,000 tons. We have no doubt that it will. The job done on synthetic rubber by the petroleum, chemical, rubber processing and alcohol distilling industries—as well as by Mr. Jeffers himself—has been magnificent. Of course, we shall have to continue to use available supplies of both synthetic and natural rubber with care for some time to come—but there will be no crisis. We are now assured that the rubber war will be won.

The Japs could not have imagined this when they brought war to us—but neither could we. Attaining in two years a production of synthetic rubber exceeding peak imports of natural rubber in any previous peace year is a Jules Verne fantasy that only could become solid fact in this land of industrial miracle-workers, and then only with the chips of war down. However, the whole war production effort has been so Gargantuan an achievement that it baffles the attempts of our most gifted writers to deal with it in full perspective.

LEWIS MANEUVERS FOR POWER . . . John L. Lewis has not as yet obtained admission into the A.F. of L. At first his offer to enter the organization he once nearly wrecked was met with irresponsible glee by men like Green, who showed no resentment against a man who opposed the war effort, but thought only that they had scored against him in labor power politics. Despite the support of Woll and Hutcheson of the Carpenters Union, the sullen resistance of the membership has, as yet, prevented this major catastrophe to labor peace. Lewis split the A.F. of L. to form the C.I.O. Then he essayed to wreck the C.I.O. by withdrawing the miners. Then he formed District 50 as a swinging weapon against C.I.O. and A.F. of L. both, and, at last, humiliated by the tactics of President Roosevelt, he whimpered about the need for labor unity and asked for admission into the A.F. of L.

District 50 has tried, in more than three cases out of four, not to unionize non-union workers, but to enter industries where unionization prevails. If Lewis obtained control of the A. F. of L. he would at once engage in nationwide battles with the C.I.O., introducing dual unionism everywhere. He never joins but to disrupt.

Like Hitler he is a man consumed by ambition and like Hitler he has some sinister backing in the anti-patriotic groups, even among those whose interests appear to be opposed to his. The No-Strike pledge, by and large, has been faithfully adhered to by the responsible leaders of labor. Most strikes have been sporadic and largely the work of *provocateurs*, some, apparently in Axis pay. It is time, by legislation and the resistance of the patriotic workers against Lewis' anti-war tricks, to break the back of this arrogant seditionist. He retreats every time he faces a true showdown: his threat is with us always because it is not firmly put down. Labor itself would come to endorse any legislative act that would put a premium on honest unionism and a penalty on so-called labor policy, whose utimate objectives are indeed remote from labor's interest.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 278. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, June 21, 1943.

As I See It! BY CHARLES BENEDICT

GOLD THE ULTIMATE REFUGE

THE war has dynamited every attempt to outmode gold and establish a new foundation for currency and credit the world over. So great has the destruction been that nothing else is left to be used. Centuries of work and savings have been destroyed, so that today productive wealth, the true foundation for values, has been undermined to such a degree that the possibility of establishing bases for currencies on a pre-war foundation no longer exists.

At present the currencies of various countries have little or no real value, so that the price rise in over fifty countries has been everywhere tremendous. I am, therefore, not taking this so-called "inflation" into consideration for the purpose of this discussion, because the war has produced shortages and destroyed productive facilities to such an extent that scarcity, rather more than monetary inflation, is responsible for the price rises. I am basing my conclusion entirely on the fact that the destruction of wealth has reached such proportions that the paper currency of the various countries has practically no value except an artificial one created by fiat of the governments of the various countries.

Thus, the world is bound to turn to another basis which will have universal acceptance and will satisfy all the peoples. And today, regardless of attempts to relegate gold and silver to the background, there is increasing evidence that these two precious metals are the only acceptable substitutes. It is, accordingly, inevitable that gold and silver will become the basis for the monetary and credit systems of the various states to be formed after the war.

Already the price of gold has risen to parities beyond that contemplated when our government raised the price of the metal from \$20.67, its price for almost a century, to \$35 a fine troy ounce. Gold has gradually risen for a year, so that the metal has been steadily leaving our shores and seeking a more equitable value in the few existing free markets. Recently the price of gold rose to \$74.80 in Bombay, in dollar parities. This is most significant, for the Bombay traders are among the most experienced and astute in the world. They evidently believe that the present world supply of gold is not adequate to serve the currency needs of mankind at the quotations fixed by our currency act of 1934. They, therefore, think that the price of gold must be raised, in terms of local paper currencies, in order that it shall be acquired generally and used as a base for new monetary parities — parities that will conform to the situation created by war's devastation.

Nor can we consider \$74.80 a top price. This figure does not reckon with the destruction of Hitlerian Europe. Unless the Nazis collapse in the next six months, it is difficult to figure the real extent of the destruction that will follow. If this physical wreckage occurs, it will take many years — even decades — before the means of production are restored, unless these peoples are financed from the outside. From this it can be seen that the price of gold is bound to rise well (*Please turn to page* 323)

Canadian National Railways

As from time immemorial, men still dig for gold; and all over this world it remains the one fixed monetary standard. Paper currencies depreciate, gold never does.

Projecting Security Trends

Technically, the market appears to be in an indecisive, but potentially important, phase of readjustment. Since there are great near-term uncertainties in the field of military action and home front economic stabilization, we feel that a strongly cautious investment policy is warranted.

BY A. T. MILLER

Summary of the Fortnight: Such strength as the market has shown recently is confined in striking degree to so-called "peace" stocks. All "averages" have declined—the Dow industrials quite moderately; the more speculative sections rather sharply. Our index of 100 low-price stocks was off nearly 6 points in the fortnight, but this merely took it back approximately to the level of early May.

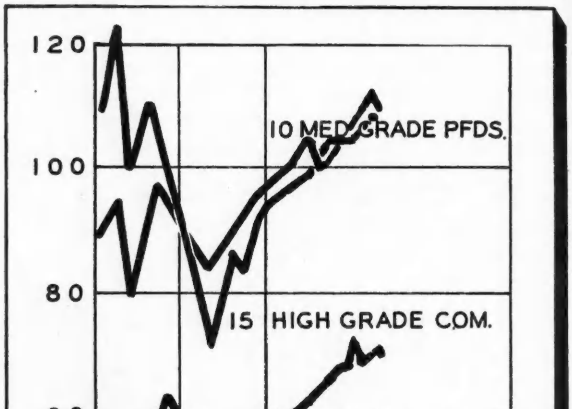
IT is assumed, and we accept the assumption, that the bull market which began 14 months ago is still "in being." The question now asked on all sides is whether the quiet retreat of the past fortnight is another minor correction—identical in technical character to all previous set-backs since the upward movement began and limited to, say, 4 to 6 points in the industrial average—or whether the market is in for a long-deferred "intermediate" reaction, lasting over a period of some weeks and carrying the Dow industrial average down by a minimum of 10 per cent from the June high or to the area 128-130.

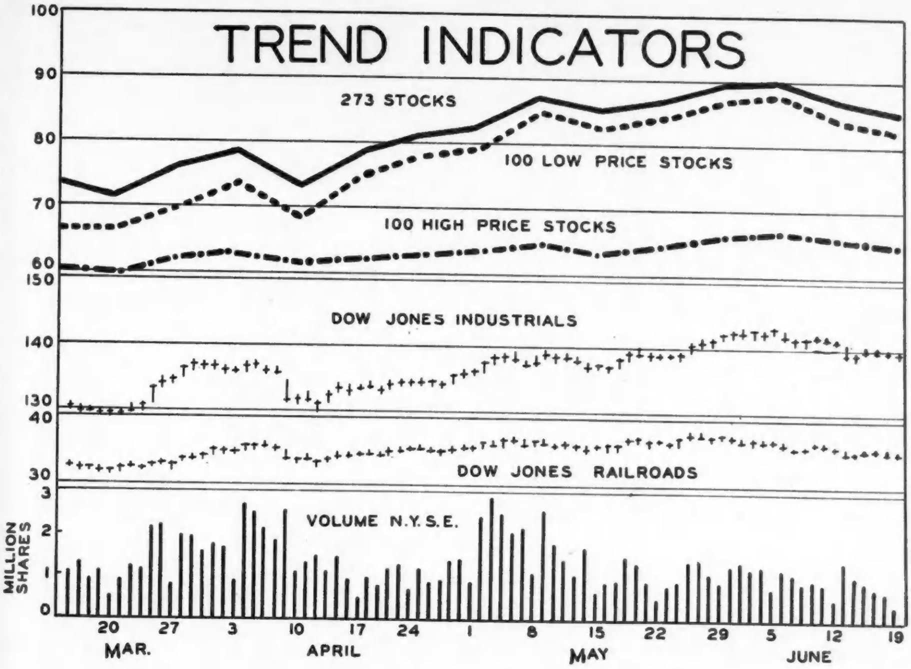
As this is written, no one can answer the question except on a guess basis, since the immediate technical indications are indecisive. The total reaction experienced to date is definitely in the "minor" class, amounting at last week's indra-day low to less than 5 points in the Dow industrial average. Subsequent rallying efforts have been very tepid in scope and volume. On the other hand, the performance is quite irregular. Softness has centered predominantly in so-called "war" stocks—which long had been in investment disfavor anyway—and in over-done low-price speculations, including rails. Against this a large number of issues—mainly tagged as "peace" stocks in the popular mind—have held persistently near their recovery highs, and some in this momentarily dull market are registering new highs.

Barring news that could do it, we doubt that a sharp, heavy-volume break through last week's lows is an imminent likelihood. Otherwise, only time can throw convincing light on the character of this corrective phase. Low-volume penetration of last week's low—approximately 138 in the industrial average—would not clinch the case for a full intermediate correction. With or without a modest extension of the down move from the June average highs, we would not be particularly surprised to see a fairly good rebound develop soon.

It is our feeling that the next substantial upturn will bear watching, not as a buying opportunity except for quick-on-the-trigger traders to whom this analysis is not and cannot be directed, but as a further test of the market's real position. If such an attempt should fail to carry above the early June average high and then be followed by decline below the "minor reaction" low now established or in process of imminent establishment, there would be no doubt as to intermediate downtrend.

Without attempting to anticipate the technical evidence, we nevertheless cannot escape a feeling that this is a time for caution and careful discrimination





in investment policy. Despite a strongly bullish precedent on a seasonal basis, we suspect that at best it is going to be considerably more difficult to garner market profits this summer than it was during the first half of the year, when an unusually large majority of stocks proved money-makers provided they were either "low price" or "peace" issues.

It seems dubious to us that the low-price section of the market as a whole is likely to turn around and resume spectacular bull market leadership in the near future. It seems dubious to us that the now laggard "war stocks"—in which the popular consensus includes aircrafts, coppers, machine tools, the leading steels, shipbuilding, the rails and to some extent the rail equipments—can provide within a presently foreseeable time a bull market leadership that they have heretofore been unable to produce.

If this view is correct, it seems to leave potential bull leadership this summer mainly to "peace stocks" of medium or higher price. Yet such stocks have been discounting peace for a great many months and many are at prices which seem to us to allow for potential post-war earnings a very goodly distance ahead and which may well tend at present to minimize both the time and the difficulties to be encountered in the early post-war transitional period, as discussed in considerable detail in the special article beginning on page 280.

Both technically and psychologically, the "peace stocks"—at some time this summer or autumn—probably will be more vulnerable to defeat of Germany (if military events appear to foreshadow it) than other and more depressed sections of the market.

As to the war, we are presently in a blind spot of great and important uncertainty. The time is very near for the Germans to launch their third all-out offensive against Russia—if it is coming. On the other hand, if they forego any major offensive, that would strongly suggest that a full *defensive* strategy had been adopted. In the latter case it *might* be that the war could be more protracted than the present optimistic public consensus allows for. If you grant the *possibility* that market sentiment may cool on "early" defeat of Germany — "early" meaning either this year or by next spring—we have our doubts that that would be bullish on "peace stocks" at already advanced levels. And in view of the fact that "war stocks" were, on the whole, persistently behind the market long before anyone dreamed of early defeat of Germany, we are not so sure that the addition, in psychological consensus, of, say, one year to the duration of the conflict in Europe, would radically or basically change their present market status.

On the home front—with reference to wage and price control and food supply—the consensus of Washington press observers is that we are now in the "most critical" period of any time since this country entered the war. The lack of unity—and the appearance of muddle and confusion on these matters of internal economic and financial management of the war effort—have given rise to a feeling of uncertainty and uneasiness. By all the evidence, this home front crisis must very soon show either improvement or further disturbing deterioration.

A plausible longer-range case can be made out for selected stocks on the "inflation argument." One flaw in this reasoning is the matter of timing. Whatever the post-war inflation potential, there are interim possibilities that don't look so inflationary to us. Certainly if Germany should be defeated at not too distant a date, we can expect a substantial and prompt easing of the restrictions on production of civilian goods and probably some repercussions in commodity markets. Meanwhile, the commodity markets themselves at this moment are scarcely performing in an inflationary manner.

The Dow commodity futures index has been moving distinctly "sidewise" for several months. And the Moody spot commodity index has been edging down moderately since early April.

Conclusion: Though the technical evidence does not yet signal even an intermediate reaction in a bull market, we believe a generally cautious investment policy is warranted by the near-term uncertainties.—Monday, June 21.

What About—

INDUSTRY ?
BUSINESS ?
YOUR INVESTMENTS ?

BY LAURENCE STERN

How much longer can Germany hold out against the mounting military and political power of the United Nations? No one can give a provable answer to this momentous question—yet it is highly significant that conjecture on the matter, by both military experts and laymen, is now increasingly expressed in terms of months, rather than of years. It is no longer fanciful to reckon with the *possibility* that the guns may be suddenly silenced in Europe before this year is out.

After the collapse of the Nazi military machine, how long will it take to make Japan cry, "Enough"? Again, nothing but conjecture can be advanced. But Japan is peculiarly vulnerable to attack spearheaded by decisively superior sea and air power, and the total force confronting her will be indeed terrific. It is not far-fetched to reckon with the *possibility* that the end may come within 1944.

Now regardless of the precise coming dates that history will record, the one certainty is that the present time is not a bit too soon—if anything it is late—for the Government and for prudent business men and investors to be not only thinking about peace but to get down to brass tacks in planning and preparing for it.

The crisis of sudden peace, unlike the crisis of sudden war, will involve no threat to our national survival, but there the distinction largely ends. The manifold problems of industrial and financial readjustment presented by demobilization will be scarcely — if any — less formidable and time-consuming than were the problems presented in mobilization for war. If peace came tomorrow, we would no more be really prepared for it than we were prepared for war when the Japanese blow fell on Pearl Harbor.

I know that scores of agencies, organizations and groups—some governmental, some private—have for some time been engaged in "post-war planning." The net result to date provides very little that we can bank on, for two reasons: (1) business men can not make specific plans for their individual procedures in reconversion because the terms, conditions and timing of getting out of war production will depend upon Government decisions and procedures involving just as much negotiation and "paper work" as did the conversion to war production; (2) the post-war "planning" of Federal agencies to date consists largely of voluminous generalities and theorizing about "over-all" measures for "assuring high employment through full utilization of our resources, etc."

The general policy decisions—which can only be made and carried out by the Government—will, of course, be of the utmost importance: such matters

as the timing and speed of military demobilization, employment shock-absorbers in the form of public projects, tax policy, the U. S. role in world economic readjustment, etc.

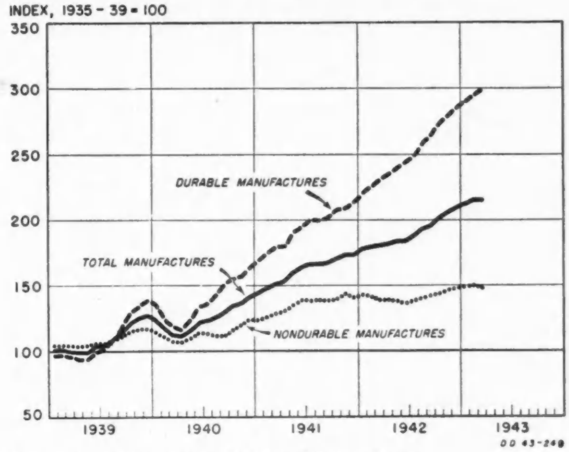
But regardless of such general decisions, the Packard Motor Company, for instance, could not now guess—even if it could forsee exactly when the war will end—whether it would take three months or twelve months or even longer for it to return to full production of civilian automobiles; and the 350-odd concerns associated in Packard war work as sub-contractors are equally in the dark. Here the problems will not be generalities, but very specific and very practical. They will be legal problems, financial problems, physical problems.

The automobile and auto parts industry represents the biggest and most important reconversion problem for several reasons: (1) Of the *major* industries, this was the one most completely transformed by war as regards character of production, and arrangement and ownership of producing equipment; (2) as the largest producer of consumers' durable goods, in peace-time this industry, plus related industries and trades, is a tremendous generator of economic activity—so much so that its volume alone could largely spell the difference between a good year for American business and a poor one; (3) the validity of current forecasts of active post-war business, on the basis of huge consumer savings and satisfaction of long-deferred needs for durables, rests in major degree upon what happens in this industry.

Both because of its own importance and because the readjustments that will face the auto industry in the post-war transitional period are more or less typical of the whole structure of war equipment manufacture, it is worth while right here to take a very brief look at them.

(1) In a great many factories the present war-production set-up is both physically and legally "scrambled." Part of the machinery is owned by the Government, part by the corporation. Government machinery not suitable for civilian production would have to be moved out, and the whole plant system rearranged, before civilian production could be resumed. Some of the capacity represented by original equipment, which has been moved out into storage, farmed out or disposed of, would have to be restored. The physical job of plant reconversion might require, say, three months—but it can't even be started without advance "clearance" from the Government, and this involves a mass of paper work, negotiation and legal formalities. If the latter preparation is made *before* the war ends—or if effective short-cuts can be devised, as more and more industrialists are now urging — reconversion could be relatively fast. Otherwise, it would be very seriously retarded.

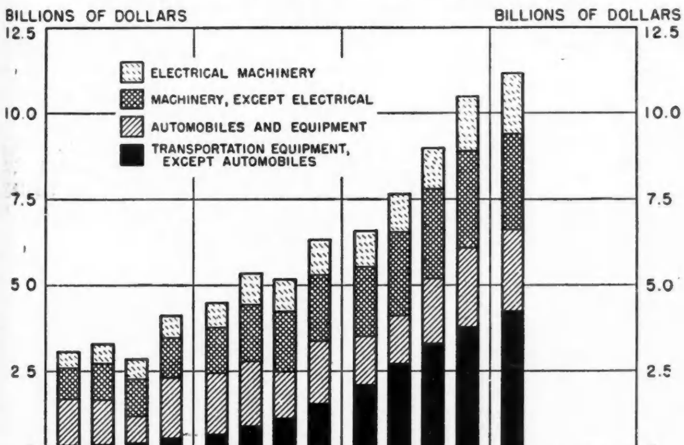
Production of Manufactures, Adjusted for Seasonal Variation



Source: Board of Governors of the Federal Reserve System.

Survey of Current Business

Manufacturers' Shipments for Selected Industry Groups



Survey of Current Business

(2) Restoration of civilian production will also depend on Washington decision as regards the release of needed materials and labor.

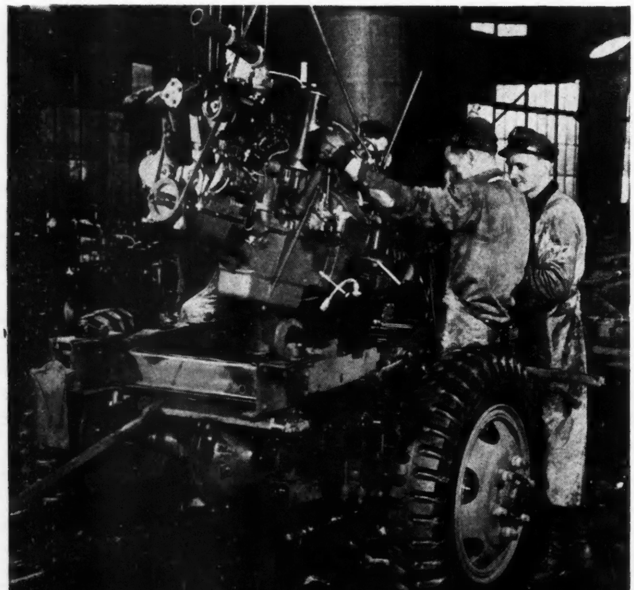
(3) There will be a financing and working capital problem. This is a long story in itself, which we will consider in some detail further along in this article and note only most briefly at this point. It involves the question of war-contract cancellation; negotiation and settlement—involving protracted Government auditing — of claims against the Government and vice versa; possible frozen inventories and receivables; difficulty of converting these previous "quick" assets into enough cash to meet accounts payable, taxes and bank credits, etc.

(4) And how great will be the public's immediate post-war demand for automobiles? Theoretically, this demand should be tremendous. If we assume that "normal" buying habits will promptly reassert them-

selves, then—allowing for the certain high level of spendable savings that will be available—a plausible case can be made for a record-breaking rush to buy cars as fast as they become available. But the first part of the premise *may* be open to question. The wear-out rate on existing vehicles has been radically reduced by curtailed mileage and abnormally careful conservation otherwise. Having had this enforced lesson in conservation, car owners in future may be less style-conscious, more utilitarian-minded, less addicted to two-year turn-ins. The industry is planning to meet the initial demand by production of virtually the same models that it left off with, yet the motoring public is fully aware that this would be intended as a stop-gap, pending the earliest possible production of radically improved cars, with engines capable of using high-octane gasolines at a per mile cost perhaps half that of the 1942 models engineered in 1941. I therefore wonder whether the buying rush during the first year of peace will be so terrific after all, especially if millions of people should be wondering about the security of their jobs.

II

In what has gone before I have tried to high-spot some of the more significant basic aspects of the problem of industrial reconversion, drawing upon the automobile industry by way of specific example. Of course, the proportions and details of the transitional adjustment problem differ widely from industry to industry, also from company to company. The bulk of the remaining space available for this article will be devoted, in the concluding sections, to additional concrete and specific considerations affecting the individual industries and many individual companies; but one must bear in mind that individual distinctions, however important in themselves, are after all secondary to the "main line trend." Company A may have a superior prospect to Company B, but its prosperity is mainly dependent upon the *national* prosperity; and neither A nor B would have earnings worth cheering about if we slid into any considerable economic depression. Hence it is necessary to take a look at certain additional aspects of the forest of sudden peace before we concentrate on the trees.



Another heavy-duty military truck nears completion with the mounting of the powerful engine on Studebaker's assembly line.

Will Unprecedented Savings Be Spent or Conserved?

We have noted that the existence of large savings in consumer hands will not necessarily guarantee a rush to buy automobiles. The same is true of the whole field of consumer spending. What about confidence? Millions of people—with very good reason—will be uncertain about their jobs, therefore tending to cling to accumulated savings in the safest and most readily convertible forms. The job-creating capital investment over the war period will have been financed preponderantly by the Government, and has created a vested and valid political interest in the jobs thus brought into being. What is to carry on this stimulus? Certainly in the post-war transition period—which I am thinking of in terms nearer two years than one—there is no prospect whatever that capital investment by private enterprise could come anywhere near filling the employment void resulting from a cut or even a third to a half in the peak level of Federal war spending.

As compared with present war spending, the highest annual rate of private enterprise capital investment ever known was relatively small for a period of unforeseeable length after the war such investment will be retarded by the adequacy of existing producing facilities in relation to visible markets, if not by the fear of over-capacity.

Total industrial production at present is more than double that of the base period 1935-1939, production of durable goods more than three times greater. I see no prospect of developing an equivalent output of civilian goods for domestic or foreign markets except over a goodly period of years. Meanwhile, with maximum allowance for consumer spending and private capital investment, the rate of Government spending would continue to be the main determinant of total production and employment and, therefore, of trade.

Millions of people not formerly in the labor market have entered it, drawn by high pay—housewives, other women who formerly were non-employed dependents, teen-age youths, retired people. Many of these will resist return to former status. If there is any considerable reduction in Government spending, there will be an important *deflation* in employment, trade and production, a radically increased competition for jobs, a downward pressure on going wage and salary rates. On the other hand, if there is *not* a considerable decrease

from peak Government spending, the continuing rise in Federal debt, the unavoidable maintenance of high taxes, repression of interest rates and Federal dominance of the financial machinery would further inhibit productive private investment.

True, continuing war with Japan, after defeat of Germany, would for a time be a stabilizing factor. It would permit some reduction in total war effort, the beginning of expansion of civilian production, a concurrent shift toward Government spending for public works. Doubtless there will be large lend-lease exports for European war relief. The possibilities of foreign capital investment have been analyzed in previous articles by George S. Kent and are long-range, rather than applicable to the difficult transitional period that we are here concerned with.

Because of the probable dominance of Government spending over our mixed economy, at least throughout the transitional period, we can probably avoid an economic nose-dive. Because of the very height of taxes, aggregate corporate profits in the transitional period may be surprisingly stable—but is stability enough? A bull market can't live forever on stable profits and dividends: at some point a resumed forward march of profits must be required. The alternative support might be "inflation psychology," but the foundation for such psychology in the transition period, considering the potential deflationary offsets, is a moot question.

In summary, I conclude that post-war transition and the time to be spent therein probably foot up to a considerably more formidable problem than the public mind—and especially the average investor's mind—is presently attuned to. This is by no means to say that we will not emerge from the transition into a probably protracted period of prosperity—as we have done after all previous wars. The foundation will be there. But the end of the war will find some 70 per cent of our productive effort devoted to war, against 30 per cent at the end of 1918. The unscrambling job—the readjustment job—must be proportionately greater; and nothing is to be gained by making light of it. The transitional period is bound to be a very severe test for political and business leadership.

Changes in Financial Position of Representative Companies

(Figures in millions of $ except working capital ratio)

Company	Year	Cash or Equiv.	Inventory	Receivables	Tax Accrual	Other Current Liabilities	Net Work Capital	Work Capital Ratio	E.P.T. Refund (a)
Bethlehem Steel	1939	75.5	116.5	48.5	11.7	45.2	181.3	4.3	
	1942	183.3	168.0	157.6	167.9	138.4	205.3	1.6	25.0
Bohn Aluminum	1939	1.9	2.9	1.5	0.15	1.0	4.4	5.4	
	1942	1.1	6.8	6.2	4.2	3.7	6.2	1.8	2.4
N. Y. Shipbuilding	1939	4.8	0.2	2.1	0.4	2.2	4.4	2.7	
	1942	27.8	0.6	16.5	2.5	39.5	2.9	1.0	1.8
Lockheed Aircraft	1939	1.7	6.7	1.0	1.1	5.5	2.9	1.4	
	1942	28.0	38.6	52.3	56.0	65.0	12.0	1.1	3.0
Crucible Steel	1939	4.7	17.8	5.2	1.2	5.4	21.1	4.0	
	1942	19.0	30.5	20.5	21.1	10.4	37.7	2.2	3.7
Square D Co.	1939	1.6	2.3	1.1	0.3	1.3	2.9	2.7	
	1942	3.9	8.8	3.3	3.2	8.1	4.8	1.4	2.0
Am. Chain & Cable	1939	2.7	6.5	3.8	1.4	0.8	10.4	5.7	
	1942	7.4	8.4	8.9	9.7	1.9	13.2	2.0	2.6
Bullard Co.	1939	0.9	2.0	0.3	0.07	1.7	1.4	1.8	
	1942	13.1	7.9	3.9	10.5	10.4	4.1	1.1	2.0
Am. Locomotive	1939	7.1	7.8	4.6	0.2	2.6	15.0	6.3	
	1942	17.0	29.9	14.3	19.3	23.6	24.9	2.7	4.8
Eaton Mfg. Co.	1939	3.3	3.6	2.8	0.7	2.1	6.9	3.4	
	1942	6.2	12.4	8.4	10.4	6.7	10.2	1.6	4.0
Chicago Pneumatic Tool	1939	1.0	7.6	2.1	0.7	1.0	9.0	6.1	
	1942	2.4	9.6	7.2	6.9	1.7	10.6	2.2	2.1
Mack Truck	1939	2.1	14.7	12.3	0.4	5.0	23.9	5.4	
	1942	5.9	28.7	21.3	15.4	11.7	28.7	2.0	2.8
Johns-Manville	1939	9.8	8.7	5.8	1.6	3.2	19.3	5.5	
	1942	26.5	11.8	13.7	14.2	5.5	32.4	1.6	2.3
National Acme	1939	0.9	3.4	1.2	0.1	1.5	3.9	3.4	
	1942	6.8	10.9	7.1	10.9	4.5	9.5	1.6	3.2
Sperry Corp.	1939	4.7	9.0	3.9	3.0	6.7	8.8	1.9	
	1942	39.2	112.3	46.0	30.7	155.0	16.6	1.08	4.4
United Aircraft	1939	37.4	11.9	3.6	2.1	32.3	18.7	1.5	
	1942	69.2	53.6	35.1	45.4	40.8	73.9	1.8	7.8
Beech-Nut Packing	1939	7.4	6.8	1.3	0.5	0.9	14.3	11.3	
	1942	7.5	10.2	2.8	5.4	1.2	15.3	3.3	0.8
J. C. Penney	1939	20.5	53.4	0.5	3.5	10.7	60.2	5.2	
	1942	94.9	57.2	0.5	40.9	41.7	70.1	1.9	6.0
Am. Tobacco	1939	16.9	151.7	12.5	N.F.	36.6(b)	146.5	5.0	
	1942	18.2	229.4	28.0	41.0	17.5	217.3	4.7	3.7
Montgomery Ward	1939	24.4	81.5	62.6	5.0	26.9	136.6	5.2	
	1942	44.1	139.7	53.5	(c)	36.9(b)	200.4	6.4	4.1

(a) Figures are approximations as of end of 1943. (b) Total current liabilities. N.F. Not reported. (c) Company held Treasury tax notes exactly equalling estimated tax liability.

III

With reference to difficulty—or ease—of readjusting to a peace economy, it is convenient to group the various industries, roughly, into six groups, even though this tends to over-simplification and to some overlapping. For instance, some industries may have virtually no transitional adjustment problem in the case of certain types of products, a difficult problem as regards other products.

First, let's look at the business-pretty-much-as-usual group. These, serving both civilians and, to more or less extent, the military forces and war plant centers, are operating practically in normal fashion. That is, they are making what they made before the war and largely with pre-war producing facilities. They did not have to "convert" to war and hence will not have to convert to peace. In most cases the expansion of war-time volume has been moderate, creating no automatic basis for sharp slump with peace. In most cases, volume in the post-war transitional period will depend, as now, largely upon the general state of business and consumer spending.

I would say this group includes oil, tobacco, foods, motion pictures, dairy products; drugs, proprietary products and cosmetics; shoes, textiles, utilities, paper; restaurants and drug store chains.

In the second group I would put industries that have continued to operate in pretty much normal fashion but which have been, or will be, subject to war-forced curtailment of volume—moderate in some instances, severe in others—due to materials shortages or other restrictions. It includes flat glass, paints, building materials; furniture and floor cov-

erings; gold mining, upholstery fabrics, jewelry and metal containers. All of these have been rather sharply curtailed. Others which have been, or will be during the rest of the war, subject to more moderate curtailment are sugar, printing and publishing, grocery chains and department stores. As with the first group, there will be no physical and "paper work" conversion-to-peace problem. To some of these, the end of the war would be a decided boon, especially in the instances of flat glass, upholstery fabrics, gold mining, furniture and floor coverings, metal containers and, for a time, sugar—in the last case until demands are met and the normal overproduction reasserts itself. Building, which will sink lower in volume before the year is out, also has a major vested interest in peace. Nothing could match active construction as a source of employment, both in the transitional period and in longer range economic expansion. Under any Administration at Washington, there will have to be heavy emphasis on public works, as well as on policies conducive to maximum volume of private building.

In the third classification, I would put industries which are turning out the same character of products as formerly, but in hugely increased volume due to war needs. These are radically expanded in producing equipment or volume or both, but are not "conversion" industries. In some instances, in this group, we come to the area of heavy Government war-plant investment—and to the unanswered (and presently unanswerable) question of what will be done with Government-owned plant or machinery. Will these producing facilities be sold to private industry on an economic basis? Will the issue become a political football? In some of these fields investors will do well to watch closely all indications, pointing the direction of the answer, as they begin to shape up. Washington is the place to look.

This list is a rather long one. It includes aircraft and parts; alcohol and other solvents; copper and brass products; steel, machine tools, heavy electrical equipment, Diesel engines; shipbuilding and shipping; railroads, tractions; some chemicals, a field treated more extensively in a special article elsewhere in this issue, as is also the case with articles on other pages on the steel industry and the presently wobbly railroad stocks. Others in this group of abnormal volume situations appear to include bituminous coal, coke, lead, molybdenum, nickel and vanadium. The transitional problem facing the group is not physical reconversion but the threat of sharp curtailment in volume.

Next we come to the real conversion group, large in total economic importance but rather small in number of industries. This includes automobiles and parts, office equipment, farm equipment, household electrical equipment and specialized machinery. Earlier in this article we dealt with the automobile industry. Its reconversion problem, of course, is larger in scope and more complex in detail than that of any others in this classification. For instance, the makers of office equipment and household electrical appliances can in most instances return rather readily to manufacture of regular lines—given release from war work by the Government and granted the necessary supply of materials. Producing facilities in most cases have not been rearranged nor "scrambled" nearly as much as in the case of the automotive field.

Farm Equipment Industry Largely Converted to Peace Basis

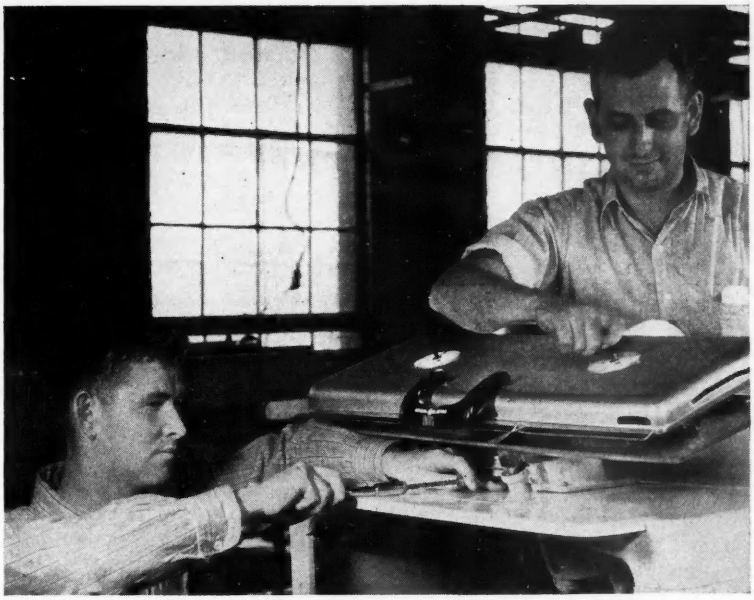
Farm equipment presents points of distinction making its inclusion in the conversion group somewhat debatable. It was only partly converted to war work, and already WPB is sharply reducing the emphasis on its war equipment output and revising upward its permitted supply of materials for manufacture of badly needed farm machinery. With crops in the poorest condition in three years, due to abnormal spring weather, and with the war taking on an ever more hopeful prospect, this industry will almost certainly be allowed to expand its regular production substantially over the next twelve months, regardless of whether Germany has fallen meanwhile. Its volume outlook for the post-war transitional period appears especially favorable, with large export of foods and farm equipment probable.

The rubber products industry is also a special situation. Here there has been a major industrial revolution: the increasing shift from natural rubber to synthetics. Yet volume is at record highs and profits, despite high taxes, are the best since the mid-1920's. It no doubt can make rubber products — whether of synthetics or natural rubber or both —as readily for peace as for war. Ex-war work, its volume—despite accumulated civilian needs — probably would be under peak war levels.

Another industry that does not fit readily into our arbitrary groupings is radio manufacture. It is devoted wholly to war work but finds itself pretty much "at home" as to character of things made and manufacturing techniques. (*Please turn to page* 320)

Jolivette

Food requirements of the United Nations make farm equipment a military weapon.



A scene in the electric stove division of General Electric when production of this household need was at its peak.

POST WAR COMPETITIVE TRENDS

In Consumer Durable Goods

BY E. A. KRAUSS

Consumer Durable Goods, the hall-mark of the American standard of living, have always played an important part in our lives and our economy. This perhaps because their possession means prosperity, and inability to buy them or replace them usually reflects depression conditions. Their demand characteristics resulted in a distinct pattern of profit trends. Profits in these industries have always been irregular; they have been aptly characterized as "explosive." Witness the twenties when sharp expansion of all classes of income—aided by installment financing—carried profits to record levels, only to fall precipitately under the erosive effect of the ensuing depression.

When this war ends, the scene is set for another boom period in the consumer durable goods industries which — unless guided properly — may truly deserve the attribute "explosive." The basic elements, large pent-up demand due to inability to buy or replace goods, and sharply increased purchasing power, the result of high war-time earnings and savings, already exist. They will become ever more weighty, the longer the war lasts. The extent and potentialities of the buying power finally available will of course depend on several factors; of primary import are (1) the Federal fiscal policy which to date has not yet been finally determined; (2) the distribution, or rather the degree of concentration of war-time savings as it will be found at the end of the war; (3) the immediate post-war employment situation which, if unsatisfactory, may easily erode a goodly part of the then existing buying power. At the moment, neither of these factors can be foreseen with accuracy but regardless of their final weight, the potentialities of the consumer durable goods markets should be formidable.

The rapid rise of individual savings, since the war began, is most impressive; for the three years 1942-44, the aggregate should exceed $100 billions. Conversely, the decline of consumer durable goods production due to war-time restrictions has been drastic; it dropped from a record high in 1941 of some $10 billions to $6.4 billions in 1942 and this year is expected to sink to $4 billions, closely approaching the depression low of 1933. The accompanying table furnishes a picture of the trends in consumer durable goods production during the 1929-41 period. While the upsurge in 1941 would of course be somewhat reduced by correction for higher prices and by exclusion of Government military purchases, even after such allowances it is evident that 1941 sales were the largest ever. This means one thing: if the war should end soon, demand might not be nearly so "explosive" in view of the heavy buying in 1941 in anticipation of shortages.

The Department of Commerce in a recent publication entitled "Markets after the War" has attempted an approach to their analysis, and on the basis of accumulating demand during the war period and past relationships to the gross national income has projected — not forecast — immediate post-war demands. These projected figures have

Gross Flow of Consumer Durable Goods*

(In $ Millions)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939	1940	1941	1942†
Household furniture	1,070.3	912.0	702.7	487.7	312.5	524.9	559.9	716.2	834.3	720.0	799.0	870.9	1,070.0	1,784.0
Floor coverings	554.8	389.4	334.4	231.9	139.6	292.0	263.3	321.8	381.8	318.0	359.3	384.7	470.0	882.0
Misc. durable furnishings	879.2	770.7	682.6	488.8	360.0	436.7	474.5	579.3	619.1	620.5	794.0	886.1	1,090.0	1,526.0
Heating & cooking apparatus	364.7	332.3	245.3	160.2	143.3	205.8	262.1	337.5	371.9	297.0	344.5	433.7	650.0	814.0
Refrig., wash. machines, sewing machines	376.5	340.3	293.8	194.6	234.5	292.3	325.8	394.2	491.7	344.3	381.3	460.4	640.0	799.0
Elec. hsehld. appl.	138.5	135.3	121.1	79.1	67.3	104.3	130.2	159.2	175.6	169.8	194.7	217.0	260.0	389.0
Other hsehld. appl.	22.6	22.2	18.4	12.7	10.3	13.3	14.1	15.7	18.8	20.7	22.5	25.7	30.0	44.0
Radio appar. & phono.	878.1	813.4	475.5	225.4	184.9	236.5	282.4	358.7	366.5	310.4	377.8	415.6	500.0	1,100.0
Passenger cars	2,953.5	2,089.2	1,490.9	828.8	840.8	1,239.9	7,804.0	2,114.4	2,364.2	1,418.4	1,810.4	2,382.5	2,750.0	5,718.0
TOTAL (a)	9,863.0	8,127.3	6,320.1	4,194.6	3,426.0	4,809.5	5,646.9	6,737.9	7,556.9	6,044.4	7,122.0	8,277.9	10,310.0	16,878.0

* Source: Fed. Reserve Board Bulletin. † As projected by the Dept. of Commerce. (a) Representing the aggregate of 21 sub-groups.

been incorporated in our table for the purpose of comparison only; their purely hypothetical nature must be stressed. However, while in no sense a forecast, many of the items projected may be sufficiently accurate to serve as a preliminary basis for market analysis; on the other hand, the many imponderables entering the situation must never be lost sight of. Indicative of the potentialities, at any rate, is the fact that the Department of Commerce, in its projections, envisages for the first post-war year a production of consumer durable goods fully twice as high as the 1940 volume of $8.27 billions.

In spite of the enormous latent demand, a highly competitive situation is certain to develop in the consumer durable goods field after the war. How this will affect the fortunes of the various industrial enterprises, and which companies are in the best position to capitalize on the huge pent-up demand, are questions of definite interest to many investors. In attempting to answer them, it should be understood that the conclusions arrived at can in no sense be regarded as irrevocable. Rather, they envisage a projection of trends within the industry which, though interrupted or temporarily deflected by the war, existed before and are bound to re-appear during the post-war competitive struggle. Nevertheless, the element of the unexpected can never be ruled out.

The dominating group among the consumer durable goods industries is, of course, the automobile industry; it will be the most important beneficiary of the post-war buying rush. Effectively blanketing the entire field, the "big three," General Motors, Chrysler and Ford, will of course gather the lion's share; their entrenched position, concentrated purchasing power and huge resources assure that. The entire industry, now virtually 100% converted to war work, faces a monumental reconversion problem; the manner and speed with which it can be solved by the various companies may importantly influence their future prospects. Here, too, the "big 3" have a definite advantage. Their flexibility of plant and organization should assure quicker reconversion. This may be inferred at least tentatively, from recent statements of various managements; General Motors, for instance, expects to resume automobile production within 4 to 5 months and reach full production seven months after reconversion has begun, provided however, that the Government permits complete rather than piecemeal change-over. Hence the actual time required will largely depend on Government policy. On the other hand, Packard, where as with other smaller units, the "scrambling" of machinery (its own and Govt.-owned) creates a difficult situation, expects to require 4 to 8 months to *begin* new car production. These figures are probably typical for the industry as a whole. All face a tremendous retooling job but the smaller companies, much more than the leaders, will have to rebuild their entire organization from the bottom up.

The post-war boom will of course furnish plenty of opportunities to all; they will all do well while the boom lasts. The aftermath, however, should witness a deepening of a trend evident before the war, that is increasing domination of the field by the "big 3" and a further decline of the independents in their relative position. The latter's product is by no means inferior but their disadvantage lies in distribution and over-all resources where they simply cannot match the leaders. With the subsidence of the boom, they most likely will be forced back to low profit levels; for survival, many may resort to diversification and their war production experience may prove a stimulus in this direction. In this, they would merely follow the example of their leaders; both General Motors and Chrysler already are widely diversified.

Financially, the industry should emerge soundly from the war; all units have created special reserves to take care of reconversion expenses and other contigencies. In the main, the competitive struggle will be fought among the major companies. General Motors, by virtue of its outstanding position, wide diversification and almost impregnable financial status should find itself in better than average position. Chrysler's efficient organization and alert engineering staff will enable it to become further entrenched in the automotive field but, having already achieved a relatively mature position, prospects are slim for further rapid and permanent expansion such as the company enjoyed during the late twenties. Ford is likely to find himself in a similar position; prospects point to increasing diversification, probably in the aviation field, to compensate for the restrictive effect of automotive competition.

In fact, greater diversification may be the net result of the industry's post-war experience. The leaders already are well out in front. Nash-Kelvina-

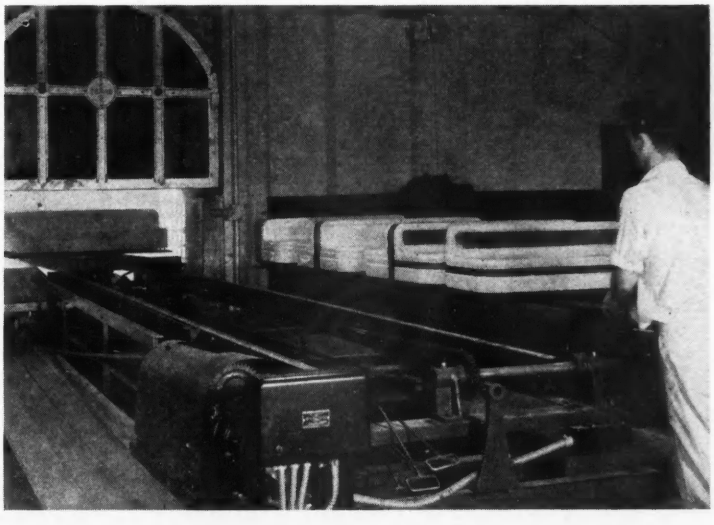
tor, having made up for operating losses incurred in 1938-39 when it branched out into the refrigerator field, should be able to do considerably better after the war, benefiting both from the large automobile and refrigerator demand. However, disruption of its dealer organization due to war causes may be an important early handicap. This may also be a problem for Hudson Motors while Studebaker and Packard apparently managed to keep their dealer organizations fairly intact. As to the often rumored possibility of aviation and shipbuilding companies intending to enter the automotive field after the war, it appears that such possibilities are very small; the "big 3" constitute an almost insuperable barrier to any such undertaking.

Electric Appliance Field

Second only to the automobile industry in importance is the electric appliance field; its expansion in recent years is clearly shown on the statistical table. Profit trends corresponded closely to those of the automotive industry until 1936 when compared with the latter, the appliance industries made only moderate recoveries. In competition for the consumer dollar, up till then, the automobile has clearly shown its superiority. However, it should be noted that the margin for further expansion, the distance from the saturation point, appears far greater for appliances (except radios) than for automobiles. The hand-fired furnace, the ice man and the broom, to mention just a few, still exasperate millions of housewives who as quickly as possible will want to replace them by the new mechanical aids to a comfortable existence.

In this field, too, we find a situation not unlike that in the automotive field, namely a thorough blanketing of the market by a few large manufacturers, resulting in a severe competitive situation for the lesser factors. However, unlike in the automobile industry, prospects of greatly widening markets appear far better and this, in recent years, has attracted quite a few new-comers. Dominating are General Electric and Westinghouse, both producing a complete range of electrical goods, from the heaviest piece of machinery to the tiniest incandescent lamp. GE alone accounts for about 25% of total industry production. What proportion of production of these major companies consists of appliances, and what of heavy equipment, is one of the great mysteries of this industry group; it hinders any attempt to analyze thoroughly the outlook for the lesser components. In the post-war era, GE should easily maintain its dominant position. By extensive research and skillful and ingenious publicity it has elevated its products into a preeminent status; the GE symbol in the minds of many has become the standard of perfection. The company has other differential advantages over its principal competitor, Westinghouse. It is financially stronger, enjoys a somewhat higher operating efficiency and possesses greater plant capacity. Moreover, extensive holdings of GE in numerous non-affiliated companies is probably explained at least in part by its ability, because of such share ownership, to increase its share of business secured from these companies. Both, GE and Westinghouse, have efficient and worldwide distribution facilities. The latter by increasing diversification should in the future achieve greater stability of sales and profits during cyclical swings. Both are unquestionably in a position to make further important progress during the post-war boom.

Confronted with sweeping competition by these leaders, the smaller companies thus far have fought an up-hill battle, yet in many cases it was not without its rewards. Alert management and efficient plant organization usually turned the trick. Chicago Flexible Shaft, an important maker of household appliances, has been doing quite well. Aided by leverage provided by its small capitalization, earnings were substantial and its financial position has been strengthened by a conservative dividend policy. It should participate importantly in the vast post-war appliance business. Similarly situated are McGraw Electric Co., Bendix and Borg-Warner, the latter aided by wide diversification of production. On the other hand, such companies as Eureka Vacuum Co. and Maytag, the former a leading maker of vacuum cleaners, the latter of washing machines, have severely felt the impact of major competition. Eureka's financial position, impaired by pre-war operating losses, is further weakened by war-time interruption of operations, not nearly compensated for by war work. Thus handicapped, there appears little hope for sustained sizable earnings in the post-war era. Maytag, while adequately financed, is facing keen competition in a market which prior to the war was believed to be near the saturation point. While (*Please turn to page* 324)



A firing furnace in the plumbing ware plant of the Bridges Manufacturing Co.

Watch the World Go By—

The Dollar As the Index of Victory

BY GEORGE RIVIERE

On December 7th, 1941, a wave of rumor swept over every neutral country. The story of Pearl Harbor swiftly took on catastrophic proportions. In every financial center in the neutral countries Axis agents whispered that the American Navy was at the bottom of the sea, and that the prudent foreigner who could withdraw his funds from this doomed country had no time to lose. The thousands of firms on the Allied blacklist, whose very life depended on Axis victory, bid up premiums for any currency that would upset the American dollar.

At first the campaign centered in Havana. It was an easy spot for black market operations. The government was intensely friendly to the United States and soon was allied to it. But (and this is important for speculators) it was assumed that the Cubans were sellers of sugar and other raw materials and that they would have the benefit of Allied purchases without the undue cost of real participation in the war. As the American dollar could be freely bought and sold, the Cuban peso soon showed a considerable recovery, largely due to this speculation. But despite the nervous selling of these dupes of Axis agents, the rate in Havana is limited to a very narrow range.

* * *

Frightened foreigners soon realized that there was very little they could do to disturb the American dollar by the selling of checks on New York or by telegraphic transfers. So, instead, they turned their bank deposits here into bales of ten dollar bills and many of them personally accompanied the load of greenbacks and decamped for the tropic realms. The Argentine proved the best country for their purposes. In the first place, in Buenos Aires you have the first commercial city of Latin America. Second, it was neutral. Third, it was a center for all sorts of strange triangular traffic, very much on the legal borderline of everything; shipping, contraband of war, counterfeiting, and so on.

The sellers of real American dollars found themselves up against large offers of counterfeit dollars. It is generally understood in Europe that the Axis governments have sponsored the "printing" of American dollars. For they know that the European basically has confidence in no other money to that extent. The German occupation authorities (by way of their disavowable agents) then sold these spurious dollars to the hoarders, collected their local money in exchange, and used the genuine local money they acquired as a means of purchasing war supplies throughout France, Jugoslavia and other countries where the American dollar was being accumulated. This age-old device was used by Napoleon to break the confidence and credit of his enemies.

* * *

This high sponsorship of counterfeit dollars had the same objectives, but there was another angle too. When the cowardly foreigner fled from the United States with his greenbacks and found that their genuineness was suspect, he hastened to offer them for still less money. The German propaganda had caught him both ways.

Not to be outdone by Napoleon's performance, the German war lords, realizing the worth of the American dollar and feathering their own nest for the evil days to come, were fearfully glad to be able to pick up that currency at a discount, from their own gulls. Thus the German agents everywhere multiplied rumors about American defeats and American domestic chaos, and having got their dupes to unload at any price, they coolly bought dollars cheap for their own account. In Buenos Aires this was an active factor in the temporary "black market."

New money poured into the Argentine at a fast rate. Convinced that any country that enters a war must see its currency dwindle under its excess expenditures, these philosophers put their money into a safe neutral country, to wit, the Argentine, and into allied countries they were sure would spend little on the war effort, relatively, like Brazil and Mexico.

For it was not merely stupid fear and Axis propaganda that worked against the dollar. It was the "wise-guy" attitude so typical of the cracker-barrel philosopher, who argued that the American dollar could not support a load of taxation and debt and that it must gradually fall relative to those countries which were feathering their nests and sacrificing little. This group sold the dollar merely on old fashioned reasoning.

To Americans it comes as a shock to see the dollar considered a mere commodity, just another of the many expressions of a standard of value and means of exchange. A dollar is fixed for most of us, even though we have seen a devaluation of 40.94% not so long ago, and our history books tell us that the dollar fluctuated between 36 cents and 80 cents during the Civil War, and that it was a veritable football in the early days of the Jackson administration. For us these are bits of archaeology: for the suspicious outsider they are part of living history.

The dollar went down fast in the first black market quotations. It began around 60 cents. Months of comparative inaction in the Pacific and it slowly sank, until it is understood (though no one can guarantee word-of-mouth quotations in a black market) there were fools who sold it for as little as the equivalent of 30 cents expressed in pesos. Then came the Coral Sea victory, and it rose to 40 cents. It perked up to 50 cents, and had a hectic career, with every sort of rumor putting it down and every sort of fact putting it up.

At last it began to get into the higher 60's, and after the North African invasion and Stalingrad, the clever boys realized that they had sold gold for the price of straw. They then tried to bid up dollars but those who had bought them at low figures held on to them and thus the supply dwindled.

What they are today is not easy to determine. The Axis agents work steadily to keep them down, both to injure American prestige and to buy them for themselves. But the double game is wearing out and it is clear that the skeptic, rascal, dupe, coward and enemy have been crushingly defeated in the secret skirmish of the dollar. From all indications it is nearing par and should soon go to a premium, especially as the United States is free from revolutions and it is recognized that with Allied victory the financial goodwill of the United States, Britain and France will be indispensable if the Argentine is to export and live.

* * *

Attacks on the United States dollar are not new. In the Civil War, the Confederate cabinet, though short of funds, used almost its last supply, at the suggestion of a Tennessee banker named Porterfield, to destroy the American dollar by way of Montreal and London exchanges. It ended by our New York bankers making the profit and the dollar rising to a premium. When the tide of battle turned, after Atlanta, the very speculators who had tried to sell the dollar for three years, lined up in the streets of Amsterdam, in front of the American consulate to purchase dollars at 60 cents, and United States Fives as their interest-bearing expression. We are seeing the same phenomenon today in Havana, Mexico, Buenos Aires and Stockholm.

The American dollar has had a less hectic career in Switzerland. True, the physical dollar bill (as distinguished from bank transfers) has been hawked about the streets of Zurich for fifty cents, at the very worst quotation. But that is not so much a reflection on the dollar as it is of a pressure of all Europe to obtain Swiss francs and Swedish kroner. These are the only two sound neutral moneys in Europe.

The Spanish peseta is socially dubious: the Portugese escudo represents a state whose foreign debt record has been pretty bad. Hence the Swiss franc has sold consistently at large premiums. The German who fears defeat, will not buy Allied money, for if his identity is ever revealed, he feels, whether rightly or wrongly, that his ownership may be challenged. He wants to be in neutral money only and he doesn't much care what he pays for it. He wants no records of deposits, no receipts, no evidences of ownership, direct or indirect. This is his last shot in the locker; if he holds anonymous banknotes he feels safe. Driven to despair he has put his money into escudos, for he thinks that Portugal will always be well treated by Britain and yet be neutral.

* * *

But, as the Swiss banking system has been strictly neutral, and the German knows this, he feels that the integrity of this sturdy country, that stands up, a David among surrounding giants, will be respected by everybody. Hence the premium on the Swiss franc, when expressed against dollars, gives the dollar an artificially low quotation. But there is some true discount.

Switzerland has grave difficulties, such as shortages of goods and price inflation and also high defense costs, but, all in all, she is the least dented country in proportion to her former banking position. Hence the Swiss Franc does enjoy a premium over all comers, but, on a comparative basis, probably less against the American dollar than any other money. For the dollar bill averages about 75 cents in Zurich, at last reports. When the fear premium against other money is reckoned in, it shows that the dollar practically (*Please turn to page* 319)

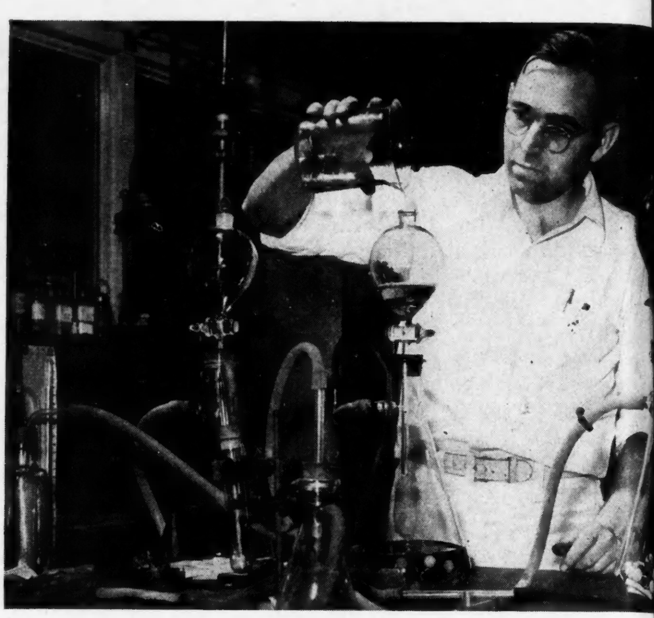
Swiss Federal Railroads

Summer Scene in Zurich, Switzerland

Investment Audit of the

CHEMICAL INDUSTRY

—Now and —After the War



A corner in a laboratory of the Monsanto Chemical Co.

BY ROBERT P. EDWARDS

No major American industry is as well equipped as the chemical industry for a quick change over from war to peace. The chemical industry will need no retooling.

The same products now being turned out in a never ending stream to make explosives to load shells and bombs, to make a score of plastics with a thousand military uses, nearly all of the varied multitude of chemicals now going to war production, will have equally important peace time uses.

This is, of course, the reason why this industry was able to meet war needs so speedily and so smoothly. The transition to peace time production can be effected with equal facility and with little or no expense for changing equipment and without costly shut downs.

The chemical industry has always been one of the most adaptable of industries and even when and if peace time demands require a shifting in the balance of production, a good deal of equipment can be switched from one product to another with comparative ease.

The industry's problems with excess plant capacity will also be less burdensome than those of industry in general. Most of the new plant capacity built and financed by the industry itself during the war has been to make materials that they would have made any way in the normal upward trend of their business. More and not less capacity to make materials of this type will be needed after the war. Du Pont's Nylon and Union Carbide's vinylite are two outstanding examples.

As a matter of fact the industry was in the full tide of expansion when war broke out; and the war, which has required the building of some huge new chemical plants, has also prevented the building of many other plants to make materials for new kinds of civilian goods after the war.

The huge new war plants have, of course, created a great deal of excess capacity for a few materials that probably cannot be consumed by civilian industry for a long time after the war. Most of these plants, however, are government-owned, and may not be a burden on the chemical industry in post-war days. But there are some exceptions.

There has been, for example, a tremendous expansion in capacity to make synthetic nitrates and ammonia for explosives. Many of these new plants use petroleum or its gases as raw materials and probably have considerably lower costs than the older processes which use coal as a source of the hydrogen needed.

It is possible that these plants may be shut down and held in a "stand by" condition after the war. But nitrates are a primary fertilizer material and it is more likely that Government action will be taken to keep these plants running as a source of cheap plant food for the farmer. Unlike the old inefficient Muscle Shoals plant built during the last war, these new plants are highly efficient. Allied Chemical, with its great synthetic sodium nitrate plant at Hopewell, Va., built years ago, might be affected by this situation.

Then there is toluene for making T.N.T. which

has been greatly expanded, but this will probably be less of a problem because toluene is one of the versatile hydro-carbon chemicals that can be readily converted into a good many other useful materials.

Another material that is certainly going to be in the "surplus" class for awhile is magnesium made by Dow Chemical, still by far the largest producer, from brine or sea-water. While chemists and engineers believe that magnesium has a great future, few of them are optimistic enough to hope that the present war time output can be absorbed for some years after peace comes. This will probably mean the closing down of most of the Government-financed plants at least for a while. Dow, which built with its own funds a substantial part of the increased capacity, will no doubt have to curtail its magnesium output drastically. This however will not necessarily have any very harmful effects on profits. It is unlikely that any very large part of Dow's wartime earnings have been provided by its magnesium operations, with taxes and renegotiation considered. What Dow may lose in magnesium profits after the war may well be offset by larger volume and larger margins of profits in some of its other new materials, notably some of its plastics such as Saran. Large peacetime markets are expected for this material in plumbing and chemical piping and in woven goods.

Synthetic rubber and its raw materials, butadiene from petroleum (and from alcohol) and styrene from coal tar, will also be problem materials after the war. Natural rubber may offer severe competition. But it is also possible that the Japanese will destroy enough rubber plantations to make the natural product scare for some years. Synthetic rubber is

Long Term Record of the Chemical Industry

	*Production Index	*Total Ind. Production	†Net Income 19 Chemical Companies
1928	78	99	164.7
1929	89	110	197.1
1930	87	91	143.7
1931	78	75	113.5
1932	68	58	62.7
1933	76	69	94.4
1934	83	75	114.1
1935	89	87	144.9
1936	99	103	192.9
1937	112	113	200.6
1938	96	89	113.9
1939	104	108	187.1
1940	114	123	194.1
1941	139	156	202.6
1942	173	181	160.5

* 1935-1939—100.
† Standard-Poor Figure in millions of $.

also superior to natural rubber for a great many uses, and like Du Pont's neoprene, which had a large market before the war, the new buna rubbers may be able to hold their own in sizeable volume for special uses.

The nation's plant capacity for making oxygen for flame cutting and welding tools has been virtually doubled since the war began. The reason for this was the need for greatly increased amounts to supply shipyards and other metal working trades

Composite Balance Sheet Items for Ten Leading Chemical Companis

(In Millions of Dollars)

	1929	1932	1939	1942
Net Property	519	523	644	783
Cash Items	246	222	303	393
Total Current Assets	469	386	589	853
Current Liabilities	66	33	110	332
Net Working Capital	403	353	478	520

engaged in war production. Since oxygen is costly to ship in its large steel containers, it was also necessary to build new plants strategically located near new war time consumers. All of this is apt to mean an over supply after the war. This would affect Air Reduction Co. and Union Carbide and Carbon Corp., who are the two largest producers. However, even this probably need cause no concern about the post war earnings of these two companies. Their present record sales volume is producing record earnings most of which are going into excess profits taxes. The war has shown industry how to use oxygen flame tools instead of machine tools for many purposes and as result post-war demand for oxygen will be much larger than it was before the war. With eventually lower taxes this should permit a new high level of peace time profits for these companies.

Some of the chemical producers have been afraid that a sudden ending of the war would bring a problem because of large stock piles that might be built up in a few leading products, alcohol for example. It is a sound Government policy to encourage these stock piles when it is possible to accumulate them, to avoid the consequences of possible future transportation tie-ups. So far however, with the exception of alcohol, accumulated during the delay in building some of the synthetic rubber plants, there are not enough stock piles to cause any real concern.

After the war the chemical industry is looking forward to the highest peace time sales volume in its history, a volume of demand that should run far ahead of any of the best pre-war years. In the first place, export demand should be heavy. The need for rebuilding Europe and for starting the wheels turning again will require large amounts of American chemicals. Although South America is not a primary chemical market, orders from there should be very large, to replace goods that could not be sent during war time.

It also must be borne in mind that after the war it is probable that most of Germany's chemical plants will be in ruins, and Germany has always been one of the major exporters of chemicals. American producers are likely to fall heir to much of this business at least until German plants can be rebuilt

and markets assigned to them under a new post-war arrangement.

The same holds true for Japan. Japan has been one of the leading industrial nations in the Orient and has had a sizeable chemical industry. Whether or not this will be destroyed as the result of Japanese defeat is not of course known, but it is a fair bet that American producers will take over some of Japan's major markets.

The trend toward industrialization of backward nations all over the world will probably be accelerated after the war, and this again will mean more chemicals. While industrialization, of course, means building local chemical plants, it also means a greater demand for the intricate products that only an industry in a high state of development, like our own chemical industry, can supply.

By far the greatest demand however will come from American consumers. The American consumer who has been cut off from buying new refrigerators, radios, automobiles and many other things during war time has also been cut off from buying chemicals though he may not realize it. More chemicals than ever in the form of plastics, paints, textile fibres, etc., are going to be used in the consumer goods of the future.

Nylon hosiery, of course, is one notable example. Du Pont, even with some moderate recent plant expansion, is not making enough Nylon to take care of even a part of normal peace time demands for Nylon hosiery and brush bristles.

Union Carbide was just beginning to bring its vinylite out in a variety of consumer goods: draperies, fabric for shoes, shower bath curtains and other materials of this type. The demand for vinylite for new uses will be very large and meanwhile the war time development of vinylite insulating for cables will offer another new market and the return of safety glass for automobiles will restore the demand for the vinylite sheets that are used to join the two sheets of plate glass in windshields.

The plastic plywood industry, which has created

Position of Leading Chemical Companies

Company	Investment Rating	Capitalization (000 omitted) Debt	Pref.	Common	Book Value $ Per Sh. 1937	1942	Working-Cap. ($ millions) 1937	1942	Sales ($ millions) 1937	1942	Dividend Record $ Per Share Avge. 1936-39	1940	1941	1942
1 Air Reduction	A	10,000	....	2,713	14.72	16.05	15.2	17.8	30.7	74.95	2.37	1.75	2.00	2.00
2 Allied Chem. & Dye (a)	A+	....	....	2,214	90.99	100.03	87.3	103.0	177.2	244.4	7.12	8.00	8.00	7.00
3 Amer. Agric. Chemical	B	....	....	628	88.50(f)	35.21	13.7	14.6	24.3	27.10	4.16(b)	1.28	1.45	1.70
4 Amer. Cyanamid "B"	A	29,058	1,293	2,552	17.94	20.57	26.4	49.3	10.14(c)	29.68(c)	1.16	2.10	1.85	1.35
5 Atlas Powder	B	1,052	68	256	38.35	51.04	7.72	10.8	17.38	36.78	4.12	4.25	4.50	3.50
6 Columbian Carbon	A	....	....	537	51.79	55.75	4.55	7.50	15.73	19.57	4.12	4.60	4.70	4.25
7 Commercial Solvents	B	....	....	2,636	6.02	8.48	13.79	15.66	45.9	52.4	0.35	0.25	0.55	0.60
8 Dow Chemical	A+	14,500	60	1,248	23.32	42.29	4.37	9.56	25.5	78.3	2.76	3.00	3.00	3.00
9 du Pont de Nemours	A+	....	1,688	11,108	40.14	47.41	155.4	173.2	286.0	523.4	5.72	7.00	7.00	4.25
10 Freeport Sulphur	A	2,900	....	800	21.67	28.09	9.03	15.57	13.9	15.5	1.50	2.00	2.00	2.00
11 Hercules Powder(h)	A	....	87	1,316	21.66	29.53	15.2	26.1	44.5	114.3	3.71	2.85	3.00	2.50
12 Mathieson Alkali	B	....	23	828	26.76	26.09	5.53	3.05	3.66(c)	4.67(c)	1.54	1.50	1.75	1.12
13 Monsanto Chemical	A	....	210	1,241	27.61	33.36	13.8	21.8	33.2	69.1	2.75	3.00	3.00	2.25
14 Texas Gulf Sulphur	A	....	....	3,840	15.52	15.34	26.5	31.9	26.2	29.1	2.31	2.50	2.50	2.25
15 Union Carbide	A+	24,600	....	9,277	27.58	32.81	63.7	95.9	52.9(c)	138.3(c)	2.45	2.30	3.00	3.00
16 United Carbon	A	....	....	398	37.37	42.13	2.24	2.46	9.27	10.3	3.75	3.00	3.00	3.00
17 U. S. Indus. Alcohol	B	....	....	376	31.67	56.04	10.03	8.18	10.8	27.7	0.31	Nil	1.25	2.00
18 Westvaco Chlorine	B	....	57	353	18.49	22.96	1.63	3.73	8.59	15.0	1.15	1.85	1.85	1.40

D—Deficit. (a) Year ended June 30th. (b) 3/1 stock split-up in 1938. (c) Optg. income. (e) On A & B stock combined. (f) Before 3/1 stock

a new raw material out of wood and which takes large amounts of plastic glues, has been comparatively slow in getting into volume production during the war. Its real major period of expansion will probably come soon after the war in making board for pre-fabricated houses, for pleasure boats, airplanes and furniture. This is another large and unexploited new chemical market.

The rayon industry, one of the largest of chemical consumers, is going over to war production more and more and the available supply for civilians is being cut down. This will mean a large unfilled demand from civilians ready and waiting after the war, and large business both for rayon makers and their chemical suppliers.

In spite of all the fanfare of publicity for many years, plastics have only just come into their own as major raw materials on a tonnage basis. Figures of war time production are, unfortunately, war time secrets but the output has multiplied several times in the last few years. The output of plastics now has reached the point where it really compares with that of many of the metals. Not only has the production and use of the older plastics, such as the phenolics of the Bakelite type (made by Union Carbide, Durez and Monsanto), grown many times, but there are a score of new plastics that are certain to have large markets.

Lucite, made by Du Pont and sold mainly for novelty uses before the war, has grown into a big business to supply windows and noses for fighting planes. This production will probably be readily absorbed after the war, particularly since more output means lower costs.

The whole plastics business has had an astounding growth during war time. Better, cheaper and speedier ways of moldings plastics have been developed, all of which are going to open wider industrial fields. Because they are completely new types of raw materials they have needed new industrial techniques to bring them to their fullest and most efficient use, and these new techniques have been

Position of Leading Chemical Companies

	Earnings adjusted to present capitalization $ per share 1932	Avge. 1936-39	1940	1941	1942	Price Range $ per share 1929-32	1937-39	1940-43	COMMENT
1	0.85	2.11	2.38	2.60	2.50	222¾-30⅞	80¼- 40	58⅛- 29½	War demand large. Expanding markets for industrial gases provide excellent peace time possibilities.
2	3.92	9.51	9.43	9.67	9.74	354¾-42½	258½-124	182 -118½	Wide diversification, enlarged capacity and strong trade position assure continuance of large earnings.
3	D 1.94	2.01	1.45	1.78	2.87	37¼- 3½(g)	101½- 16(b)	30⅛- 12⅛	Leading producer of fertilizers. Increasing proportion of industrial chemical sales should improve post-war status.
4	0.14(e)	1.73(e)	2.60(e)	2.65(e)	1.95(e)	80 - 1⅝	37 - 15½	44⅞- 28⅝	New products and further widening of already broad markets should extend long-term profit uptrend.
5	D 1.96	3.67	5.63	6.10	5.90	140 - 7	94 - 36	80½- 43	War demand heavy. Should maintain good position in extractive and construction industry markets after the war.
6	1.77	6.56	5.71	6.57	5.83	344 -13½	125¾- 53¾	98¾- 51	Important factor in natural gas, printing inks and carbon black. Rubber program should stimulate sales.
7	0.48	0.49	0.91	0.99	1.27	63 - 3½	21¼- 5	16⅝- 7¼	Good long-term outlook. Active research and diversification reduces dependence on solvents.
8	1.66	3.31	5.74	6.23	7.14	100 -21½	159¼- 79½	171 - 95	Has excellent record. Aggressive development of plastics and other chemical fields enhances post-war outlook.
9	1.77	6.65	7.14	7.44	5.07	231 -22	188½- 90½	189¼-102¾	Entrenched position and wide diversification assure maintenance of leadership in chemical and allied fields.
10	2.52	2.60	3.81	3.95	3.05	55½-10	36 - 18	41 - 34⅝	Development of manganese and other mining ventures should bolster post-war position.
11	1.00	2.84	4.01	4.23	3.81	130 -13⅞	64 - 42¾	100½- 51	Overall outlook good. Widening of chemical lines will reduce post-war dependence on explosives.
12	0.67	1.12	1.65	1.90	1.26	72⅜- 9	41¾- 19¾	32¾- 19½	War-time earnings good but secular downtrend in product prices suggests only fair long-term prospects.
13	0.81	3.67	4.32	4.88	3.75	80¼-13⅜	114¾- 67	119 - 66	Production and markets well diversified. New lines enhance post-war potentialities.
14	2.00	2.36	2.38	2.35	2.29	85¼-12	44 - 23¾	41⅜- 26⅞	Increasing industrial sulphur use lessens dependence on agricultural outlets but profit outlook somewhat clouded by prospective higher state taxes.
15	0.94	3.79	4.55	4.53	3.44	140 -15½	111 57	88⅜- 58	Prominent position in plastic field aids already promising peace-time outlook.
16	0.36	4.76	3.36	4.30	4.47	111⅜- 6⅛	69½- 36¾	69½- 36¾	Natural gas now most profitable line but revival carbon black sales expected with growing synthetic rubber industry.
17	0.47	D 0.75	1.06	2.14	5.30	243⅝-13¼	43⅝- 13½	39½- 14	War volume large. Chemical developments likely offsetting factor to revived post-war competition in alcohol line.
18	1.09	1.90	2.96	2.93	2.49	116½- 3	39¼- 10	38½- 22	War business should continue considerable while broadening chemical lines constitute favorable long-term factor.

split-up. (g) 1930-32 range. (h) Year ended March 31st. Key to investment ratings: A+ Top Quality. A High Grade. B Good.

found, due to war time pressure for fast big volume output.

So the plastics business after the war seems destined to become the really big business that its sponsors have foretold for it for a long time. Leaders in the field are Carbide, Du Pont, and Dow followed by Hercules Powder and Monsanto. Eastman Kodak and Celluloid specialize so far in the cellulose types of plastics.

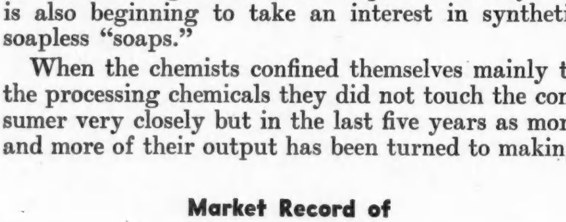
One of the outstanding factors in the future of the chemical industry is that it is now primarily a maker of raw materials for industry and not just a maker of processing materials for natural raw materials. It is obvious what this will do to the sales volume of chemical producers.

This is, of course, a trend that has been gathering momentum for some time, but again war has speeded up the process much faster than could have been done under peace time conditions, when much of industry is reluctant to change its consuming habits.

Rayon was the first of the major chemical raw materials to be a real factor in competition with natural raw materials. Plastics came next but have been slow in developing the sort of volume seen in the rayon trade. Now added to these we have synthetic rubber and magnesium, both products of the chemical industry and both produced in enormous amounts. The chemical industry on a smaller scale is also widening its hold on the paint industry and is also beginning to take an interest in synthetic soapless "soaps."

When the chemists confined themselves mainly to the processing chemicals they did not touch the consumer very closely but in the last five years as more and more of their output has been turned to making

Market Record of Chemical Stocks vs. the Market



actual raw materials, they have become more and more interested in consumer goods.

Du Pont with its rayon, paints, cellophane and nylon has a surprisingly large stake in consumer goods. Union Carbide is becoming a close second. Even Allied Chemical, old line producer of heavy "chemists chemicals" sells fertilizers and insecticides.

More consumer goods business not only means more volume for the chemical industry, but also probably wider margins of profit. Profits are normally and justifiably larger on goods that are close to the finished product, and which require more processing, than on bulk industrial materials.

In spite of the large chemical war plants that have been built to make explosives, the chemical industry today, curiously enough, is probably under built. War time shortage of materials has meant that no new plants could be put up unless their products were urgently needed for war goods. As a matter of fact, even some of the urgently needed plants, for synthetic rubber for example, have had long delays in obtaining materials. But there are any number of products new ones and old ones, that the chemical industry would like to make if it could get priorities to build plants.

Post-War Plant Expansion Likely

Commercial Solvents wants a new nitro-paraffin plant, Eastman Kodak wants a large cellulose acetate plant, to mention just two of many examples.

So it is entirely possible that the chemical industry after the war, strange to say, instead of being overbuilt, may find that it is faced with a major expansion program to make a number of new materials and to get more capacity for older ones.

This is apt to bring the industry up against some financial problems. Although chemical companies as a whole are in strong working capital position, they have not been able to build up cash during the war period of expanding sales and high taxes. Few of them actually have any large extra cash reserves beyond their normal safe working capital needs.

Consequently there is apt to be a good deal of new chemical financing in the year or so following the war. Since the industry is still very much in the "growth" classification, it must keep in liquid condition. Although there is apt to be a slump in demand temporarily while the rest of the nation's industry is changing over from peace to war, the chemical companies facing big business ahead of them, cannot tie up too much cash in fixed assets. New plants therefore must probably be built with new money.

As for the prospects of the various companies in the group, all will of course share in the post-war prosperity that the industry expects. The two largest companies, Du Pont and Union Carbide have probably also the brightest future.

Du Pont has a major money maker in nylon alone which so far has just made a beginning in the hosiery and brush bristle field, leaving its other varied textile uses untouched. Du Pont is the most versatile producer in the industry, with the largest

output of consumer goods and seems assured of a new high in peace time sales after the war.

Union Carbide's position rests on the fact that it is the largest factor in the plastics industry, a leader in petroleum chemistry, and a leader in ferro-alloys, which will continue their growth over the long pull, even if the steel industry has its slumps.

Dow's future also lies in plastics and petroleum chemistry, with magnesium a possible source of trouble in the near future, but of long term profits. Hercules Powder is coming into its own with the development of naval stores into large volume organic chemicals.

Monsanto, while not as strong in the plastics field as some of its competitors, has been benefitted by the erection of a large styrene plant for the synthetic rubber program. Styrene besides being a rubber material is one of the best and fastest growing plastics for the electrical industry.

American Cyanamid is becoming a leader in the production of synthetic drugs, with a basic position in the sulfa drug field and also has several important chemicals now going into war production which should have large peace time development. One of these is acrylo-nitrile which is a material for buna-N synthetic rubber.

Part II

Market Status of Chemical Stocks

BY FREDERICK K. DODGE

CHEMICAL stocks have long enjoyed a privileged market position. It has been asserted that it is wise investment policy to pay a premium for them as against other industrial stocks with similar records of earnings per share over a series of years. Yield is considered a minor factor as against the capitalization of growth factors. Obviously, if an industry is going to treble its profits within a decade, and if this prophecy seems founded in fact, then the investor is justified in paying such a premium. Is this the case with chemical stocks, or rather, with the leading chemical stocks in the more progressive aspects of the industry?

With respect to sheer physical production, chemicals have outdistanced the average of manufacturing industry. Leaving out the temporary distortion of war factors, and taking good years with bad on an ordinary peace business basis, we find that from 1919 to 1929, on a general industrial upcurve, chemical production rose from 52 to 100 whereas general manufacturing gained from 61 to 100, the chemical rate being nearly a third better in percentage growth. From 1929 to the second peak of prosperity in 1937, chemical production rose from 100 to 124 where general manufacturing had gained but 3 points. It also showed greater resistance to depression. By 1933 general manufacturing had declined 37% from 1929 but chemical production had merely fallen 16%.

This superiority in the chemical industries, though, was not uniform. Explosives actually declined 7% from 1929 to 1937, charcoal derivatives, 57%, salt, 3%, linseed and cottonseed products, about 15%. Certain chemicals gained less than ordinary population growth; among these were tanning and dying materials, up 1%, fertilizers up 6%, wood distillations, up 1%. Paints and varnishes, up 9%, gained just about as much as population. The spectacular performers were rayon products, up from 100 to 310, compressed gases from 100 to 138, glue and gelatin products, 100 to 139 and carbon black 100 to 133.

But these are not what most investors think of when they hear the word "chemicals." They think of that large miscellaneous grouping, such as hydrocarbons, acetic, hydrocholoric, nitric, phosphoric and sulphuric acid, ammonia products, the sodium compounds, coal tar derivatives, calcium chloride, calcium carbide, the ethyls, glycerins, sulphurs, and they think of their industrial expression, destined for the consumer market, in the shape of plastics, pharmacals, rubber products, new textiles, films, and substitute materials. This total category rose from 1929 to 1937 from 100 to 141, in a decade covered by depression almost throughout. Hence on sheer physical volume, investor preference has had a sound basis.

On the score of value, too, whereas these miscellaneous chemicals rose from 22.2% of the total physical production of the industry to 25.4%, their value rose from 21.6% to 27.1%, so that they enjoyed a higher profitability relative to the entire group.

How have these undoubted gains been translated into profits? Earnings applicable to the 19 chemical companies, leading in their field, after taxes and interest and depreciation, were 158 millions in 1929. At the depth of the depression, in 1932, they still produced a profit, as a group. They earned 48 millions for their stockholders. By 1937 they surpassed their peak in the former boom: their profits were 169 millions. After a drastic drop in 1938 to 101 millions, they rose to 162 in 1940, still above 1929. Later data is distorted by war and is based on assumptions that may (*Please turn to page* 328)

What's Ahead for the Bond Market?

HIGH GRADE *vs.* SPECULATIVE ISSUES

BY J. S. WILLIAMS

Bonds, that is highest-grades, are practically at top prices for several decades. The average yield on corporate securities rated AAA, has sunk to 2.73%. In 1936, during the business highpoint of the decade, these bonds yielded 3.24%, in 1930, at the beginning of depression, 4.55%, in the flush demand of 1926, 4.73%, and at the beginning of recovery in 1923, 5.12%.

In a sense this is part of the long term cheapening of loan capital. Despite great interim variations, the fundamental fact is that the finest corporate bonds yielded 7.5% in the Civil War decade, 7.3% in the depressed Seventies, 6.0% in the upswinging Eighties and about 4.9% in the mixed Nineties.

This trend is not confined to seasoned investments: it applies equally to new capital. In 1921 new capital was raised by high-grade companies at a cost of 7.23%. By 1930, despite depression, it cost merely 5.17%, and by 1940, 3.10%. No intermediate situation, whether boom, panic, reflation or war, has seriously modified this tendency. What wonder, then, that many economists consider the trend permanent and look for a consistently lower tendency for yields on bond investments?

Forty years ago, Landry, a cold-blooded French economist, in a period of good interest rates, predicted, amid the laughter of economists, that the day might come when a surplus of capital begging for investment might be glad to pay a premium for safety rather than expect a return. Current banking deposits already pay nothing: checking accounts are subject to minimums and to "analysis" debits. The return on short-term Treasury bills for the bankers barely pays for the clerical work of inscribing and accounting for the investment, to say nothing of overhead and management costs. Even the Treasury 7/8ths, due in seven months, pay merely .69% per annum and the 1's, due March 15th, 1946, a mere 1%. The history of finance records no lower yields.

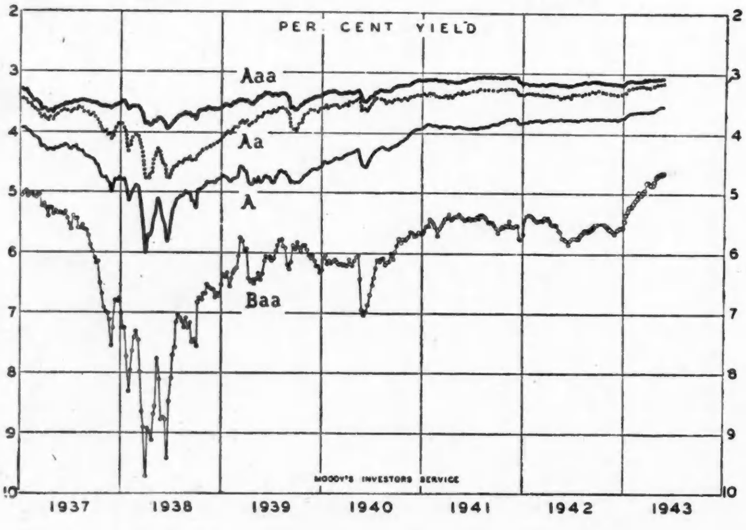
The velocity of this tendency is also disconcerting. Between April and June, the new 2½s, fresh from Mr. Morgenthau, both long-term and taxable, are already at a premium. In this upward move, the less meritorious bonds are also advancing. Bonds rated "A" (that is the minimum quality for bonds whose security of principal and interest is such that their price is governed mostly by the interest rate), are now at 3.11%, and these are not always very choice! The spread between AAA and A bonds is steadily narrowing. In 1936 it was .78%, now it is .38%. In 1923 it was 1.05%. The investor, in other words, is being driven to accept gilt-edged yields on lesser quality if he is to receive any income at all.

A "bond" is not easily classifiable. To speak of "bonds," is like speaking of the spectrum. It shades all the way until at certain points it results in different colors. AAA bonds are in effect governed by the abstract interest rate. AA's are nearly so, but earnings and assets are scrutinized. A's depend for their price, partly on interest rates and partly on a nervous valuation of trends in the issuing corporation that might injure earning power.

On the other end of the spectrum, speculative bonds have another color. They have nothing to do with interest rates. They are subject to the same laws as common stocks. They are estimates by the market of the possible spread in corporate earning power that might have favorable or unfavorable effects on future coupon payments and, by derivation, on the price of the bonds in the future.

The bond market can easily accommodate two tendencies, and often does, in that AAA's are advancing while the speculative issues are in a very bad way. The same is true of the relation of bond to stock yields. It is assumed, usually by pure deduction, that if it is hard to get 3% on a high-grade bond, that stocks will have to go higher until they yield less than 4%. But during the 1929-1942 era, despite the steadily lowering yields on bonds, stocks did the most astonish-

RAILROAD BONDS BY RATING GROUPS



ing things: their yields rose from under 4% to 8% and back again, in long swings, while high grade bond yields pretty consistently declined. Stock yields, of course, are the side-issues of public valuation of the future earning power of corporations, whereas high-grade bond yields measure the pressure of money for income, without any consideration of possible profit from business expansion. One seeks a reward for thrift: the other for risk. These are not comparable, nor related except in the vaguest way.

Many questions can be put. Why are yields so low? Will the need for cheap money to finance the war make them stable for a long time? Will yields ever improve or is this tendency irreversible, peace or war? If high-grade bonds are limited in appeal, which bonds with mixed characteristics can give a decent yield and have some chance for appreciation?

Yields have been low because of the enormous pressure of savings as against comparatively limited investments. The reinvestment of capital into new plant, into extensions, new processes and machines, has never been lower in relationship to savings available, than from 1930 to 1940. This phenomenon is world-wide. In addition, a cheap money policy, deliberately fostered by the British Treasury in the 1931 conversion, and aided by theoreticians who have touted this remedy everywhere, has emphasized the already dominant surplus of savings.

As the world moved from civilian production to relief schemes and then to armaments and lastly to war, the net surplus of savings has grown, and with the manufacture of bank credit to effectuate government financing in war, it has become even more unwieldy. Psychologically, too, it is scarcely possible for a government to permit any marked increase of yields on governments during a war where it must ceaselessly call for fresh subscriptions.

Hence the pressure of investment funds has caused savings bank interest to decline for the most part under 2%, first mortgage money to under 4% in choice cities, and commercial advances to be had for the asking. But if the government proposals to soak up surplus income by withholding taxes, by popular loan subscriptions, and, failing that, forced loans, are implemented, then the savings surplus may vanish, and corporate bonds fail to be aligned with government yields.

There is no parity between a loan made under social pressure or legal compulsion and one made with an eye single to yield. If the Treasury program absorbs fresh savings and calls upon the entire reservoir of surplus capital by the summer of 1944, the institutional demand for corporate bonds must diminish. More than that, they may have to be marketed to provide liquid funds with which to buy governments. If the war goes on long enough this must happen. Hence corporate bonds would gradually lose quality due to the heavier taxation on their earnings and also would be less demanded because the government already absorbs all capital seeking a home. Towards the end of the last war bond yields suddenly shot up on private issues. They may be nearer that turn than we think, though it seems unlikely that this will take place before winter.

Ten Bonds in Good Position for Long-Term Appreciation

	Recent Price	Current Income
Atlantic Coast Line, 4½s, 1964	71	6.33%
Cleveland nion Terminal, 1st SF 5s, 1973	82¼	6.04%
Great Northern, 3¾s, 1967	89	4.21%
Gulf Terminal Co., 1st 4s, 1957	89	4.47%
Illinois Central, Ref. 4s, 1955	58½	6.83%
Kansas City Southern, 1st 3s, 1950	72	4.16%
Louisiana and Arkansas, 5s, 1969	89½	5.52%
Nashville, Chattanooga & St. Louis, 4s, 1978	80½	4.98%
New Orleans, Gt. Nor., 5s, 1983	90	5.50%
Southern Pacific, Rfg. 4s, 1955	85	4.70%

Ten Bonds with Yields Above Average of Their Grade

	Recent Price	Current Income
Canadian Pacific, 4½s, 1960	99	4.04%
Detroit River & Tunnel, 1st 4½s, 1961	97¼	4.62%
Great Northern, 4½s E, 1977	97	4.64%
Louisville & Nashville, 1st 4s, 2003	95	4.21%
Manitoba, 4½s, 1960	102	4.40%
N. Y., Chi. & St. L., Ref. 4½s, 1978	79¼	5.69%
Pennsylvania R. R., Deb. 4½s, 1970	95½	4.70%
Southern Ry., General 4s, 1956	78	5.12%
Western Maryland, 1st 4s, 1952	89⅞	4.44%
Western Union, 4½s, 1950	96¼	4.67%

The need of our industrial corporations for reconversion and for re-equipment, and all the hazards of the transition, may also call for large-scale financing and hence, for the first time since 1929, equate the use for money with the supply of money. Foreign expansion must be sought and the drive for this outlet will come from low yields at home. What compelled Britain and France into finance imperialism were the abnormally low rates on money at home, which consistently declined from 1872 to 1887, after which came the flood of investments abroad. That served to raise the money rates in the lending country, until a fair equilibrium was reached between placements at home and abroad.

Risk capital must be forthcoming if the investor is to live at all. As things stand, if one averages government and AAA corporate bonds and mutual savings bank deposits (less taxation) the average investor today has almost no effective return on his money. Gradually, therefore, bond yields will increase and we must be near the top of quality bond prices.

If tax exemption is ended (and that is not excluded) then the very rich investors will find the last refuge for pure income gone. They may be driven to prefer risk capital in the hope that long term appreciation, when realized, will yield them more than mere safety can today.

Low grade bonds have (*Please turn to page* 317)

Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

Commander-in-Chief is a title that will be heard with increasing frequency as the tempo of the Fourth Term Drive quickens. The strategy is to emphasize re-election of the constitutional head of the armed forces, de-emphasize the circumstance that this involves electing a President. Hardly a speech made in the past month by an Administration key man failed to refer to F. D. R. as the Commander-in-Chief; few noted he also is President.

Housecleaning of Congress is the goal of the American Federation of Labor with 238 members of the House marked for defeat because they voted for the Connally-Smith Bill. Amusing aspect of the labor drive is the fact that seven members who voted against passage are on the "Dishonor Roll," and four who supported the measure are not.

Washington Sees:

His legion of personal friends wish it were otherwise, but the growing conviction here is that Secretary of Treasury Morgenthau, isn't measuring up to the needs of his office and may find it too unpleasant to remain.

Under peacetime operation, backed by the overwhelming Congressional majorities his party enjoyed in the earlier days of his Secretaryship, Morgenthau led a happy, dignified existence. War multiplied his problems; time hacked away the New Deal strength on the Hill.

The truth of the matter is that the Secretary does not have the confidence of Congress. Committee members no longer take the time to go into searching examination of Treasury programs with him. The measure of a Cabinet member's "size" in Washington is whether Congress asks his advice on legislation or merely permits him to give it.

One highly-respected person has dropped this suggestion: The Senate would confirm the appointment of Secretary Morgenthau as Ambassador to London or Turkey if he wishes to follow in his father's footsteps. His acceptance would come pretty close to having unanimous approval with members of Congress and the important people concerned with Government financing."

Too Successful, think many members of Congress, was their campaign to discredit the Office of Price Administration. Those critics now have issued warnings against pressing the attack so relentlessly as to bring about complete collapse of O. P. A. Obviously falling short of expectations, the agency nevertheless stands between regulated commodity prices and laissez faire. No matter how critical they may be, "viewers with alarm" don't want the latter.

Encouraging Note was the disclosure by the Combined Production and Resources Board that the United States and British Empire would reach June 30 without dipping into minimum reserves envisioned when the Board was created. Complementing this news, William M. Jeffers said the synthetic rubber production is proceeding at a pace fast enough to begin building stockpiles by the end of 1943.

Grade Labeling under government compulsion has the cards stacked against it. Boren Committee hearings are merely window-dressing for a report already tentatively agreed upon condemning moves in that direction and warning of speedy legislative enactments if they are not halted. Press, packers, and small business presented formidable opposition.

Three Years Late, Washington has called in Bernard Baruch to advise on home front procedures, but his theories and existing practices collide on essential points and can't be harmonized. There's no intention on the part of the planners to "swap horses" now. Baruch won't be starting from scratch, however. Since the beginning of the defense program he has maintained a staff of experts on industrial mobilization, involving an annual outlay of $100,000—out of his own pocket.

AS WE GO TO PRESS

John L. Lewis is being held responsible for the Connally-Smith Bill but his union would suffer less through its application than would the C I O and the A F of L.

Lewis' strikes are formal affairs and the bill was pointed at wildcat walkouts. John L. can call out 530,000 members of the U M A at will, and he can send them back to the pits as readily. His is a relatively small, well-disciplined group brought up in the ways of unionism and obedience. His control is absolute.

C I O and A F of L are less closely knit—the latter actually is a federation rather than a union. Each has thousands of members to whom unionization is new, an incident rather than the heart of their occupations.

Lewis can prevent strikes with the same ease that he can call them. Philip Murray and William Green have no such power in their individual offices.

Were the President to take over an operation and break a strike under the provisions of the Connally-Smith Bill, it is ten-to-one he would be moving against his labor friends—C I O and A F of L—not the United Mine Workers.

Settlement of the mine wage dispute will remove the strike threat for a full year, the period of the agreement. In none of the plants organized by the other labor unions can there be reasonable hope of a year's respite.

Talk of new and larger War Bond drives and higher taxes sent an amusing story on the rounds of Capitol Hill. Noting the high price charged for a silver fox fur, a matron invested in a fox ranch, placed equipment, hired an expert to run it, then asked: "How many times each year can we skin the foxes?"

His answer, completely satisfying to her, was: "Well, it's safe to skin them two or three times a year, but after that they begin to get a little sore."

There were five War Bond drives between May 1917 and May 1919 and a total of 21 billion dollars was raised. These drives required 18 weeks of concentrated work. In the three-week Second War Loan, 18-1/2 billion dollars, or 90 per cent as much as in the five drives of World War 1, were raised.

The target for forthcoming fund raising is the group in the $5,000-or-less earning class. They'll have seven-eights of the current income after taxes. Eventually, says the Treasury, "every person receiving income above the barest subsistence level will have to pitch in."

And 100 billion dollars must be fed into the maw of war this year. Tax laws already on the books will produce 30 billions, borrowings through the sale of War Bonds have accounted for 25 billions more. Ahead lies the obligation of raising 45 billions.

Rationing of coal next winter is in prospect. Production lost through strikes and stoppages cannot be regained. Also, unloading of coal held in cars at destination points is proceeding too slowly. Failure to return cars promptly slows down production after empty cars currently at mines are loaded and dispatched.

Mine stoppage June 1 gave opportunity to test a coal "freeze" (customary preliminary to rationing) and it worked without hitch. Ickes halted delivery of 35,000 cars, held them for

several days and then permitted them to move to consignees. It was a "trial run" for what many believe lies ahead.

Merchant ship construction continues highly gratifying. U. S. Maritime Commission reports that the first five months of this year produced almost as many vessels as in the 12 months of 1942.

National celebration marked the attainment, last year, of a goal of three new ships a day. Thatfigure will be doubled—six ships a day—by the end of 1943. And only 35 companies are engaged in ship construction.

Surplus retail inventories have been liquidated from last October by more than one billion dollars and now are in line with sales on the basis of pre-war relationship, the Department of Commerce finds. Current civilian industrial production is about 30 per cent below the final quarter of 1942.

Unit prices have more than offset the decline in inventory, Commerce analysts reason. Should this trend persist, they say, retail sales may continue to rise, or at least to resist decline, for the duration of the war.

Military production, exclusive of aircraft, is increasing at the rate of 100 million dollars a month and will reach 21 billion dollars for the full year 1943.

Yet, last month saw war production hampered by the most serious outbreak of strikes since Pearl Harbor—man-days lost exceeded the previous high of 675,000 with reports still coming in.

Labor unions have been given virtual veto power over hirings and releases coincident with establishment of the 48-hour week in the steel industry. It establishes a precedent, with McNutt's benediction, which may become nationwide. He has ordered Regional Directors to approve no changes without consulting labor as well as management.

Reports carried by an angry press in the Nation during the course of the International Food Conference suggested a somewhat ludicrous confab of overfed men discussing an abstract (to them) theory —an underfed world.

Actually the tangible results were few. Distributive and dietary faults, long recognized, were discussed and a permanent organization effected. But the real value lay in the fact that 44 friendly nations sent delegates to plan post-war in other than military and territorial terms.

Of prime interest to private citizens whose press was not allowed to take them behind the conference rooms doors was the assurance by Chairman Paul H. Appleby of the United States delegation: "One of the significant developments was the utter negation of the idea that the United States would be the post-war Santa Claus."

Vegetable packers with a five million dollar subsidy from the Government to meet labor's wage demands have solved their temporary problem, probably have given the nation a permanent one.

Now that the precedent is set, the subsidy device may be called into play as the best way out of any vital wage situation. It could get out of hand—the "easy way out" can also prove the easiest and quickest road to ruin.

THE STEEL INDUSTRY MARKETWISE

—U. S. STEEL

Lost Market Leader

Comparison With Other Steel Companies

BY
WARD GATES

Casting from an Induction Furnace in the Crucible Steel Co. Mill

For two generations "Big Steel" was the star performer of the stock market. Until the rise of the automobile giants, it was by far the largest single industrial enterprise on earth. It had a prestige, marketwise, that has known no peer. It was designated as "X" on the tape: it was the one quantity, which, when known, gave meaning to the others. Nor was this high standing a mere whim. It controlled for a score of years one-half the production of iron and steel, the very foundation of heavy industry, in the most industrialized nation. It was the quintessence of industrial capitalism.

From its motion, the impetus of the industrial machine could be ascertained. Old-line investors and speculators still look for it first when searching the quotation board: London still asks for its quotation first in getting its bearings as to what the American market did. Yet, both in volume and in price range, and in correspondence of price with broad market movements, it is today well in the rear, and, to some extent, it is viewed by the younger generation as rather outmoded and certainly as being without the high promise of so many of the younger industrials.

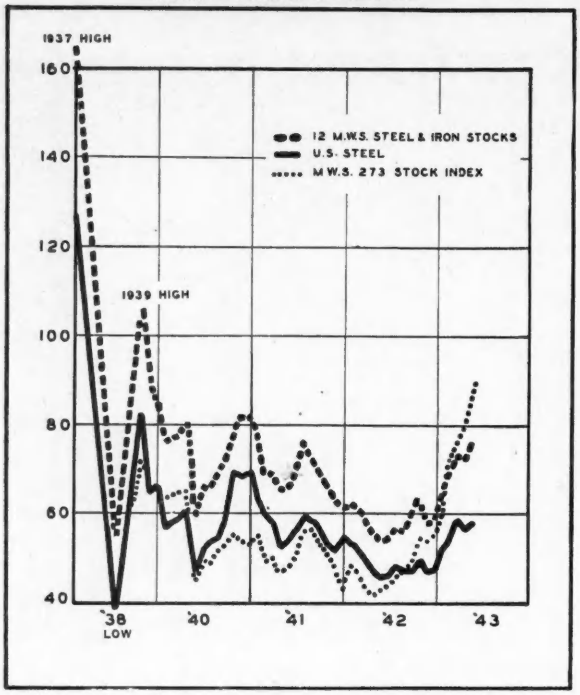
Its future is thought of as clouded and its present as mediocre. It sells at a low ratio to assets, a moderate ratio to earnings and has an above average yield. Even in its own field, it is thought not to equal such concerns as Alleghany-Ludlum, Inland or Rustless, for market performance. Like all giants, it seems too large to be nimble and adaptable. It has the "curse of bigness."

To get at the truths (or myths) hidden in this facile attitude, requires, to begin with, some comprehensive knowledge of the iron and steel industry, as such. This industry is much less homogeneous than most investors think. In fact, its range of activities, and the differential analyses that they call for, are quite as impressive as in the more patently obvious consumer industries.

The net income of the steel and iron group for the peace decade 1930-1939 was 417 millions, as against 13,219 millions for 680 leading industrial corporations. Its decade earnings were 140 millions less than in 1928-9, whereas industry, outside of steel, had made only 5,591 millions in those two boom years. Thus steel went down by about 81% in annual average earning power from high prosperity, whereas ordinary industry fell by 52% on the same basis. Steel produced a deficit in five of the ten years: these industrial corporations, as a whole, always made something, even in 1932. But, as soon as the defense program was initiated, steel in 1940 and 1941 made 242 millions per annum, as against the 1928-9 peak of 278 millions per annum, whereas general industry averaged 2,313 millions as against a boom peak of 2,796. Steel was nearer its former earning power. The altogether abnormal 1942 showing is not here in question, but earnings that have more direct meaning for civilian post-war prospects. The meaning of the war is to be found not so much in current per share earnings, as in plant capacity, advance and changes in techniques, directions of demand, rise of substitute materials in competition and in the alteration of the long-term financial structure of the iron and steel group. On a purely civilian business basis, then, it is clear that the iron and steel industry is harder hit by adversity, and rallies on capital goods replenishment more than the average for industry as a whole.

Has this rather uninspiring earnings history occurred because steel is technically in arrears? Or is it primarily a result of a lower volume of production? Mass production industries are tied up with volume of production, because their capital investment is gigantic, its upkeep large, and irreducible

COMPARING STEEL STOCKS WITH GENERAL MARKET



costs form a high percentage of all charges. In 1929 steel operations were at 88% of theoretical capacity, by 1932 they had sunk to 19.5% average, the low being under 15%. In 1938 they again sank to under 40%.

An illustration that will make its overhead situation clear is shown by the descent from the 1929 apex to the 1932 trough. Billings declined from 1,097 millions to 288, but the number of workers employed declined from 253 thousand to 164. That is, a decline of more than 75% in business, permitted only a third reduction in help.

Since volume is decisive for steel operations because of capacity and since capacity has been increased during the war, the investment market has looked askance at iron and steel stocks. It has argued that difficult enough as it was for the industry to thrive when it had a steel ingot capacity of 77 millions, it must be still more difficult when it must cope with 97 millions, and perhaps 100 millions, as the heritage of war. It did not then have to face the new magnesium and aluminum capacity, also heritages of war. Even if these metals take away no more than 3% of all business, as the steel optimists argue, it would still be equivalent to a falling off of demand of more than 3% from capacity, and so aggravate an already poor situation. For this basic reason, the glittering early war profits, and the still decent ones (even after shearing of war margins and tax clipping) have failed to impress the bullish-minded. The 1930-39 poor earning power has to cope with a fifth more capacity; for the pessimists it spells years of deficits.

This assumption is based on the analogy that what happened in a decade of depression makes a pattern for what will happen after the war. But when steel uses are studied, this becomes doubtful. In 1929, farm equipment took nearly 7% of steel: it averaged about 3% in the 30's. Present farm demand is increasing by leaps and bounds. The deferred demand for automobiles indicates an annual production rate about double that of the 30's: that would add another sixth to steel volume. Construction, we are assured by experts, should be double pre-war, and that would add another fifth to steel sales. Steel furniture has been gaining on wood, and refurnishing should do well. Consumer's durable goods face a sharply increased demand: even if overestimated, this should endure for years. The pre-war export market showed signs of revival: industrial needs abroad cannot be fulfilled by the ruined Ruhr. Shipbuilding, on the other hand, while it will be much less than in war, must certainly be larger than in the really minimal year, 1929. Aircraft must of course decline. Let us balance the picture.

Recovery Possibilities in Steel Underrated

If the possibilities for the recovery period 1945-1950 are even crudely realized, then the steel companies should show (including pipe line and railroad recovery orders, now reduced) that the various types of demand on the upside should be 40% more than in 1942, and on the downside (such as aircraft and shipping and ordnance uses) amount to a loss of 25% of all production, indicating a gain of 15%. But such a gain would be impossible with present capacity. Hence, if capacity is at 100 millions, and if 3% more is deducted for competitive metals gains, we find that present capacity will not meet the situation, and a 100% saturation for a few years is possible, if no new facilities are built. The industry always makes good money when capacity is over 70% and excellent profits at 80% or over. It would be making unrivalled profits, today, if it were not limited by government contracts and war taxation. The problem may not reside, then, in overcapacity, except as a long-term factor. It might rather reside in how much of new government-provided capacity can be acquired economically to meet the need to restock automobiles, rebuild the nation, re-equip the rails and tracks, refurbish the oil industry, provide new farm equipment and satisfy the craving for household durable goods. If 75% capacity can be assured for a few years on an economic basis, then the iron and steel group have been undeservedly neglected, and U. S. Steel has been worse treated even than the group as a whole. The steel industry is not merely a war earner: it is a foundation of recovery.

Has the steel industry earning power really been as small as the ostensible showing indicates? The U. S. Steel Corp. spent over 700 millions for plant between 1935 and 1942 and has another set of plans working that call for 130 millions more, at least. This giant began its career with 750 millions in watered stock, every cent of which was converted into the solid muscle of assets in the course of its

first thirty years: an implicit revenue of over $3 per share per annum. In 1942 U. S. Steel reported earnings of but $5.35 per share but its contingency reserves were $2.87 and it came into tax refund assets of $1.15. In 1941 it earned $10.45, but reserves were put at $2.87 equally. In 1940, when defense was a consideration, but not a major source of operations, its earnings and reserves were $9.65. In other words, as soon as capacity rises over 70%, U. S. Steel is an excellent earner, and if a tithe of the prophecies of consumer's backlog demands and construction estimates are realized, it should operate at an average of well over 75% for some years.

Its lavish reserve policy will then begin to tell. Its altogether pessimistic depreciation policy, which has ranged between $7 and $14 per share for many years, will be seen as the counsel of prudence, and the earning power of the too conservatively valued assets should shoot up proportionately. This policy of enormous reserves and depreciation allowances, and the liberal policy of plant extensions and modernizations, themselves answer the main objections to steel investments.

Steel Industry Progressive in Technique and Finance

These are that a part of the plants are obsolete; allowed for in depreciation: That the lives of the iron ore deposits are diminishing and hence operations more costly; allowed for in depletion policy: that the industry has been behindhand technologically; allowed for in extensions and new investment for variety production: that the earning power on an excess capacity must always be low when there is no renewal of capital assets by industry: compensated by the long wave of post-war needs. The ultimate picture is not here in question: investor attitudes until 1950 are as far as can be taken into account with the knowledge we can possibly have. On this basis, a leader of this basic industry, like U. S. Steel, suffers undue investor disregard.

It is commonly believed that steel and iron manufacture is one of the crudest, most homogeneous of all, since it is a producers goods industry and hence not subject to adaptations to the multiple whims of ultimate buyers. For this reason, steel stocks have often been compared as though they were roughly similar in industrial character, and only their financial aspects, such as earnings, were the basis for a choice between them. This is no longer true. It may have been so in the early days before the rise of a new technology, but the steel industry of 1943 bears less resemblance to that of the golden days of Andrew Carnegie and Charles M. Schwab than almost any other more spectacular group. It is diversified and is today one of the most varied of all industries as to adaptation to buyer's needs. Hence a comparative study of the stocks requires that the special operations of companies be appraised against the specific needs for their products in the post-war periods.

Crucible primarily produces alloy steels, Bethlehem, Jones & Laughlin and Youngstown, primarily heavy steels, U. S. Steel, accounting for 35% of all production, is integrated with emphasis, though, on heavy steels. Leading light steel makers are American Rolling Mill, and Inland National Byers concentrates on wrought iron. Republic is a replica of U. S. Steel in diffusion, though not as complete. Rustless concentrates on stainless steel, with its special uses. U. S. Pipe & Foundry has half its production in cast iron pipes.

But the differences between companies is no more significant than those within the industry itself. The low ratio of earnings to net assets made it essential to concentrate on operating economies. In the highest period of prosperity, on a peace basis, the modern industry has even known, it made 5.1% average return on its investment (1919-28). In the next decade it made only 2.4%. Its average rate of return, in peace, was thus about 3.7% (cumulative). This showing was accomplished on the lowest earning ratio to net assets of any industry except coal. Its profitability is a sixth of the automobile industry, on this basis.

This is not due to excess capacity. Unless steel and iron capacity is in excess in slack periods, it would prove the bottleneck of recovery in times of upswing. Hence it must have this reserve, as a "give" for the economic system. The investor can only ask whether its operating economies are a long term offset to this need to keep surplus capacity available for general industrial expansion.

The blast furnace is three times as efficient as before the first war. Open hearths have three times the capacity they had a few years ago, thus sharply diminishing unit costs. But labor costs, when the industry is at or near capacity, cannot be economized greatly, neither can the heavy transportation costs, except by decentralization. Local taxes are costly, and are also irreducible, as per unit costs when capacity operations occur. Hence, although the steel industry bears (*Please turn to page* 326)

Position of Leading Steel and Iron Producers

	Per Sh. Earnings 1942	Per Sh. Earnings 1939	—Dividends— 1942	—Dividends— 1939	Recent Price	Ratio to 1936-9(a) Net Per Sh.	Work'g Cap'l (Millions) 1942	Work'g Cap'l (Millions) 1937(b)
Acme	6.37	5.82	3.50	2.00	52	10.6	6	3
Alleghany-Ludlum	3.71	1.49	2.00	0.50	28	23.9	14	6
Amer. Rolling Mills	2.01	0.69	1.00	......	14	12.9	55	48
Bethlehem	6.32	5.75	6.00	1.50	63	17.0	205	141
Crucible	7.26	2.54	2.00	......	34	15.1	37	16
Inland	6.57	6.74	4.50	4.00	70	10.4	56	42
Jones & Laughlin	4.60	0.19	2.00	......	24	net def.	78	42
National	5.42	5.71	3.00	1.70	60	10.5	45	34
Republic	2.67	1.46	1.25	......	17	26.5	110	76
Rustless	2.26 net	1.13	0.75	0.25	17	29.2	4	1
U.S. Steel	5.35	1.83	4.00	......	54	24.1	523	363
Wheeling	4.61	6.34	1.50	......	21	7.1	43	33
Youngstown	5.66	2.50	2.50	......	36	9.3	95	57

(a) Ratio of present prices to 1936-39 years given because of indicated peace earnings.
(b) Working capital base year 1937 used as high point of decade earnings.

FOR PROFIT AND INCOME

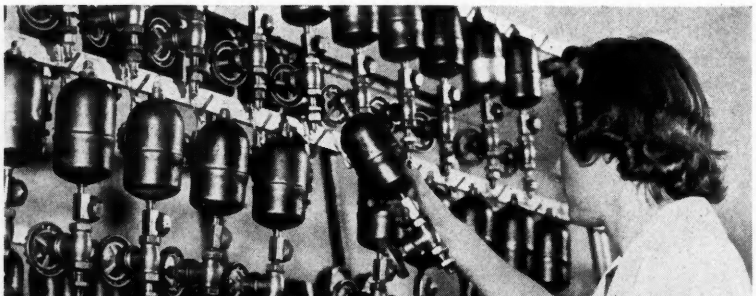
Low Price Stocks

Until recently this year had seen a one-way market for the great majority of low price stocks — the direction being upward. Now, however, the indiscriminate demand has largely subsided. In this price section, as in other sections of the market, the performance is more selective. We are glad to see this change. Low price stocks vary widely in quality, promise and risk. It makes sense to analyze carefully on an individual basis. It doesn't make sense to "play" stocks—of any price range — as if they were merely paper counters in a gambling game. Yet a surprising number of otherwise intelligent people seem to apply a wholly different standard of prudence and common sense in buying stocks than they do in buying a home, an automobile or shopping for clothing.

Although some low price stocks will no doubt continue to meet with favor, the group as a whole —measured by our weekly index of 100 issues—looks more than a bit dubious at this writing. Those who bought in the closing months of last year now have good profits that can be cashed at a maximum tax of 25 per cent. Those who bought in January, the month in which the move in low price issues assumed dynamic proportions, will soon be in this position. Tax considerations, the availability of profits and watchful attention to summer war developments all combine to make the market in low price stocks, and many others, much less of a one-way affair.

Farm Equipments

In the market's additional rise from the March high in the averages to the recent June high the farm equipment group was one of the outstanding performers. It has also held up well in such reaction as the market has had to this writing. A bull on farm equipments can cite the following arguments: (1) This is the first durable goods industry in which reconversion to regular production has already started, in the sense that output of war material is being scaled down here and there while restrictions on production of farm machinery have been eased and will be eased still further in all probability; (2) return to full production in regular lines can be achieved with little difficulty as soon as the Government gives the word; (3) Government policy calls for a big increase in farm acreage in 1944; (4) domestic and export demand for farm equipment will not only be very large after the war but will develop promptly after the defeat of Germany; (5) although these stocks have had a large rise, from absurdly low levels in the spring of last year, most of them are still priced at only 10 to 12 times earnings per share of the past year. Against this the skeptic can make the following reply: (1) Conceding an above-average post-war volume prospect, these stocks have risen from 40 to 70 per cent *this year alone*, with the exception of the less volatile International Harvester where the gain has been about 20 per cent. The group may be technically vulnerable and hardly



Westinghouse

Obviously, you are looking at small bombs—but not for war. These are Freon bombs, being filled with the freezing liquid which makes mechanical refrigerators do their work.

could be immune to any general market reaction of intermediate importance; (2) since the industry is cyclical and long term growth of profits has been distinctly inferior to growth in sales, the stocks are not entitled to high price - earnings ratios. The existing ratios may not be extreme, but neither do they of themselves indicate bargains; (3) earnings for this year probably will be somewhat lower than for 1942; (4) post-war prospects may look less rosy—marketwise—as we get closer to them; (5) current dividend yields on these stocks now range downward from about 5 per cent for the most generous to less than 3½ per cent for others; this is too low for cyclical, speculative stocks. Well, there are the pros and cons. You "pays your money and takes your choice."

The "Ups" and "Downs" in Recent Earnings Reports

SHOWING PROFIT GAINS

	1943	1942
Hercules Motors ....(Mar. q.)	$0.90	$.35
National Radiator........(12 mos., Mar.)	2.24	1.98
Reynolds Spring ....(6 mos., Mar.)	.65	.38
City Stores ....(3 mos., Apr.)	.40	.28
Columbia Pictures....(39 wks., Mar. 27)	2.39	2.15
Gruen Watch ....(12 mos., Mar.)	2.30	2.04
Chrysler ....(Mar. q.)	1.46	1.13
Am. Type Fdrs.............(12 mos., Mar.)	1.95	1.42
Briggs & Stratton........(12 mos., Mar.)	5.57	3.35
Rustless Iron & Steel.............(Mar. q.)	.86	.60

RAILROADS

All for 4 Months to April 30)

	1943	1942
Southern Pacific	$7.59	$4.11
Atchison	6.07	4.22
Atlantic Coast Line	8.47	8.30
Gulf, Mobile & Ohio	1.34	.28
Kansas City Southern	2.98	1.84
Northern Pacific	1.90	0.53
Reading	2.79	1.87

SHOWING PROFIT DECLINES

	1943	1942
Campbell, Wyant ....(Mar. q.)	$0.78	$1.07
Certainteed Products, pfd. ..(Mar. q.)	1.77	4.00
Mid-Cont. Petroleum ....(Mar. q.)	.61	.90
Addressograph ....(9 mos. Apr.)	1.12	1.26
Am. Gas & Elec...........(12 mos., Apr.)	2.10	2.61
Western Union................(4 mos., Apr.)	1.91	1.96
Hall Printing.................(12 mos., Mar.)	2.84	3.30
Reynolds Metal ....(Mar. q.)	.67	.77
Westinghouse Elec. ......(12 mos., Mar.)	5.43	6.74
Am. Rolling Mill.....................(Mar. q.)	.36	.43
Waukesha Motor ....(9 mos., Apr.)	1.43	1.63
Gar Wood Ind.................(6 mos., Apr.)	.69	.89
Com. Alcohols, Ltd.)....(12mos., Mar.)	.22	.35
Cons. Coppermines........(12 mos., Mar.)	Def.	.07
United Shoe Mach...(12 mos., Feb. 27)	3.27	4.08
Pittsburgh Coal, pfd..............(Mar. q.)	1.54	1.77
Irving Air Chute.............(Yr., Dec. 31)	1.60	1.88
Myers (F. E.) & Bro.....(6 mos., Apr.)	1.05	1.90
Brillo Mfg. ....(Mar. q.)	.45	.54
Anaconda Wire & Co.............(Mar. q.)	.67	1.30

Briggs & Stratton

For twelve months ended March 31, Briggs & Stratton Corporation earned $5.57 a share, compared with $3.35 in the preceding twelve months — thus maintaining an earning power close to the $5.95 shown for the calendar year 1942. The company makes portable gasoline engines and such automobile products as locks, ignition and lighting switches, oil filters, a transmission unit, etc. Considering the character of the business, the past earnings record has been relatively good and the dividend record excellent. Over the decidedly irregular period since 1929, smallest dividend paid was $1 per share in 1933. Over the 8-year period since 1934, the dividend has been $3 a year — even in the depression year 1938 —with the exception of $3.50 paid in 1937. Net of just under $6 a share last year reflected benefit of heavy war volume. On regular lines, the company earned an average profit of $3.41 a share during 7 years 1935-1941, the highest figure being $4.29 in 1937 and the lowest $2.16 in 1938. Sole capitalization is 297,000 capital shares. Balance sheet indicates a reasonably comfortable financial position. The stock seems to have a habit of neither going up as much, or down as much, as the general market—a characteristic not without some appeal to conservative speculative-investors to whom dividend yield is important. The bear market low early last year was 26; the present price is 41—yielding 7.3 per cent income return—and the previous bull market high, made in 1936, was 69. The range this year to date has been 43¾—33. In view of absence of previous speculative splurge, good earnings and good yield, this stock probably would show considerably less than average vulnerability in the event of market reaction.

Retail Trade Prospect

The strong performance of merchandising stocks indicates an investment consensus either (1) that the nearby heavy payroll deductions for the withholding tax will not importantly reduce trade volume; or that (2) even if it does, other considerations justify bullishness on these stocks. Probably most prominent among the "other considerations" is the "good post-war prospect," for this is a bull market founded basically on peace psychology. Since we will so soon have a factual demonstration of the effects of the withholding tax, we prefer to wait and see; and we don't feel very opinionated at the moment. We have a feeling, however, that some of the more popular merchandising stocks—Sears, for instance — are discounting their post-war future a rather considerable distance in advance. At this writing the technical trend indications for the near-term stock market are indecisive. The reaction that we have had so far from the June average high may prove just another trifling interlude in the bull market—on the other hand, it may develop into a fairly extensive phase of decline or irregularity. The answer to which it is to be probably will be a more decisive factor on near-term prices of merchandising stocks than external considerations.

Chesapeake & Ohio

Under all sorts of general business conditions since 1929, the earnings and dividend record of Chesapeake & Ohio has been remarkably good and remarkably stable. Everyone knows that, in investment quality, this is one of the few "top" rail equities. If it were not a rail, its investment prestige and popularity—also its price-earnings ratio and yield — would equal those of General Foods, General Motors, Procter & Gamble, American Can and many other favored industrials. Because it is a rail, present price of 43—up about 10 points from the year's low—still affords a yield of about 8.1 per cent on the $3.50 dividend. Smallest dividend paid was $2 in 1938; and average

(*Please turn to page* 318)

Reappraisal of the RAILS

—Looking Toward Peace

Kaufmann

Four busy freight trains leaving the downtown Illinois Central Terminal.

BY PIERRE R. BRETEY

IN WORLD WAR I, the rails as measured by the Dow-Jones Average, rose from a low level of 87.40 at the time of the reopening of the Exchange in December, 1914, to 112.28 in October, 1916; then declined sharply when Government controls were instituted subsequent to our entry into the war in 1917, reaching a low of 70.75 in December of 1917, from which a recovery set in culminating in May, 1919, when the averages reached 91.13.

Up to this time the rails had more or less paralleled the movement of the Dow-Jones industrials but the latter left the rails at the post, so to speak, in advancing sharply until the Fall of that year, while the rails were declining sharply. Both averages moved more or less together, however, in the post-war period, rails rising from 65.52 in June, 1921, to 189.11 in September, 1929. In this 8-year period there was no serious major reaction in the rail group.

Be it noted that the rails experienced an amazing post-war rise—greatest since the Dow-Jones Averages were instituted in 1885, despite problems of great magnitude confronting them (though not, to be sure, to the same degree as either the industrials or utilities). For, under Government operation during the war years, the rails were returned to private ownership in straitened financial circumstances, with equipment run down, so much so that the industry subsequently had to spend over $10 billion for rehabilitation of its roadbed and equipment (without which expenditures the rails could not have met the stupenduous traffic demands imposed on them in World War II).

This technical background is provided for investors since railroad equities have been and are still considered in the category of "war babies," and possibilities of an approaching end to the current conflict—though its exact termination is still unpredictable—raises the question not only whether or not all rail equities should be sold, but also whether rails should be bought, in the expectation that these issues are likely to duplicate their 1921-1929 experience.

That the rails are likely to experience an 8-year rise of the extent of that of 1921-29 seems highly improbable. Even the most rampant "bull" on rails is not likely to share such views. For since 1929 rails have lost their monopoly transportation position and are still struggling from a heavy debt burden inherited during the industry's monopoly era. Additionally, they have been beset by new transportation competitive agencies, chiefly trucks and waterways, adverse influence of which made themselves felt not so much by the amount of traffic taken from the rails as by pressure exacted on rates. For it is statistically demonstrable that had rates remained the same throughout the 30's as in the late 20's, the rails could in all likelihood averted the credit crisis of the 30's and most, if not all, of the large reorganizations could have been averted. These low rates have since been maintained, with little probability of permission being granted the rails to charge higher rates all factors considered, therefore, it seems unreasonable, to say the least, to expect a major bull market in rail equities, even among those of the reorganization carriers.

These competitive factors are still present with us. Yet there are signs that the market has as yet not taken cognizance of a fundamental change occurring in the transportation industry in the late 30's when I.C.C. regulation of all transportation media began to be effective. Trucks, the chief competitor of the rails, no longer provide a major threat. In fact, the operating ratio of all trucking companies in the period 1939-42 averaged 98%

(68.8% for the rails) and trainload rates inaugurated by the Illinois Central may prove the answer to the non-economic inland waterways competition.

With these added factors to be considered, while admittedly no major bull market is in prospect, the question can properly be raised as to whether railroad equities are too high, and whether as a consequence they should be sold in anticipation of a duplication of the experience of the 1930's when rail equities declined some 93%, or from 189.11 in 1929 to 13.23 in 1932. Even recent May levels of 37.31—high level of the current recovery which reflects war influences—represents a decline of over 80% from the 1929 peak.

The Question of Cash

The answer would seemingly lie in the length of the war. For should the conflict with Germany terminate this fall, as believed possible by some observers, and the Japanese remain unconquered until 1944, the roads would obviously be unable to build up as much cash as would be the case were the European conflict extend well into 1944 and that with Japan into 1945. The importance of rising cash can scarcely be over-emphasized, since rising cash may permit of substantial retirement of debt, thereby re-establishing some measure of value to many rail equities particularly of the marginal or borderline class.

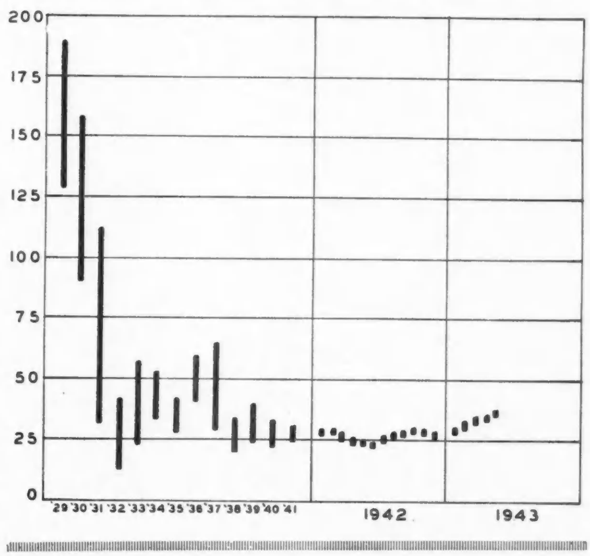
Admittedly, the rails have been war beneficiaries. Traffic volume is heaviest in history. Gross revenues have risen sharply. Operating expenses have not risen proportionately to the increase in gross. Accordingly, combination of heavy traffic volume and satisfactory control of expenses has resulted in decline of operating ratios, with resultant increase in net operating income. Cash has mounted sharply to highest levels in history and despite heavy tax burdens, net operating income has risen to levels even greater than in 1929, previous peak year. Additionally, the rails have instituted a policy of vigorous debt reduction so that fixed charges, including charges on the 20-odd reorganization rails as now proposed, will in all likelihood have been reduced from $700 million in 1929 to between $350 and $400 million by the end of 1943. All of these factors are highlighted in the accompanying table wherein statistics show the extent of the recovery in gross and net since 1938, improvement in fixed charge coverage, best since 1929) and threefold increase in cash co-incidental with an equally large percentage rise in the tax burden. Additionally, increase in operating efficiency is reflected in the sharp decline in operating ratios. In the face of such data, which is generally known and recognized by investors, the market has not attempted to appraise railroad earning power over-optimistically during the current war period since the railroad average at its recent high stood at but slightly over 50% of its 1937 peak, despite a much stronger fundamental and financial position for the industry as a whole and most individual carriers as well.

Does the failure of the market to reflect the improvement indicated suggest that all rail equities should be sold? Does the market by its technical action suggest that railroad earnings are in the process of establishing a peak for the war period, that notwithstanding the probability of an increase in ton miles of at least 20% for 1943, such increase will be more than offset by (1) the rescission of the 1942 rate rise for 7½ months; (2) increase of eight cents an hour in wages of non-operating employees, and (3) sizable increases in taxes, with many roads having exhausted their EPT credits in 1942?

Admittedly, such are the facts. But before suggesting that all railroad equities should be sold, let us recognize that a fundamental change in transportation occurred in the period 1936-1939 coinciding with the control over all transportation media by the ICC, and that operating savings arising out of sizable expenditures on roadbed (relaying heavier track, eliminating curves, etc.) and new equipment, new signal devices, etc., are likely to be carried over into the post-war era.

Additionally, let us not overlook that roads operating in agricultural territories will become beneficiaries of a probable fundamental change in AAA policies. Few will deny the likelihood of the United States becoming the granary of the world for several years following the peace, which must of necessity, or at least so it would seem to us, be translated into a reversal of an agricultural economy of scarcity into an economy of plenty, or maximum production. With one-third of total revenues of roads operating in agricultural territories, it is obvious the extent to which these roads depend upon the transportation of agricultural produce. Any increase of agricultural production must result in greater farm income, in turn followed by a general stimulus to trade which makes itself felt in increases in traffic volume of those roads operating in such

The Long-Term Market Background of the Dow-Jones Rail Average



territories. One should also bear in mind that following World War I many war industries were transformed into permanent peace-time industries. There seems to be no reason why this precedent should not be duplicated subsequent to World War II. Both the Southern and Pacific Coast territories are likely to be major beneficiaries of this development.

Further, it is generally admitted a period of general prosperity for at least several post-war years seems certain. The 10 million soldiers now in uniform will need civilian clothing when the war is over; new furniture, household equipment, radios, kitchen equipment, etc., will have to be produced to supply either new homes for war-brides now living with parents—or for new homes for post-war brides of returning soldiers. Most important, however, is the addition to our economy of some 35% to our plant capacity, some $15 billion of new factories having been built during this current war period. A substantial proportion of these factories will be transformed to permanent peace industries subsequent to the war. World War I experience has furnished us a precedent. New products, including synthetic rubber, unbreakable glass, non-inflamable wood, to mention but a few products emerging from the laboratory, new motors rendering old motors obsolete due to development of new fuels; development of mass housing (prefabrication) possibly at prices of from 20 to 40% below those of 5 years ago, all of these products and more should provide a stimulus to our economy. It should be recognized that should a mass housing boom develop—as we anticipate—needs for new furniture and rugs as also a host of products would multiply manyfold since the average housewife wants everything new for her new home. Parenthetically, out of America's 40 million homes, one-third or 13 million are over 50 years old and badly need replacement. Pent up demand for automobiles alone should keep Detroit busy producing 5 million cars for 4 or 5 years at the very minimum.

If I am correct in the assumption that a period of excellent post-war years is in prospect, it follows that the railroad industry would benefit, for those years at least, in that it would transport a volume of freight far in excess of the 30's. This volume of traffic in turn should permit the industry to cover its new reduced fixed charges at least twice, and permit of earnings to percolate down to the equities, in marked contrast to the experience of the industry in the 30's.

Still further, one should not lose sight of the effect of the cushion afforded the rails by large sums paid to the Federal Government in the form of taxes, when the inevitable contraction in gross revenues takes place upon conclusion of hostilities. Lastly, one cannot overlook the incidence of cash. In our discussion of Southern Railway (May 1, 1943, issue) we emphasized that this road might well be able to reduce its outstanding debt to $200 million, thus re-establishing its credit. This financial improvement, taken in conjunction with the favorable long-term secular trend of the territory served, might well permit the Southern to earn between $3 and $6 per share in the post-war period. Since earning power of the rails is likely, at that time, to be appraised by the market at ten times earnings, Southern would not appear to be selling at levels too high in view of its favorable long-term prospects.

Debt Reduction

In like manner, in discussing Southern Pacific (May 15, 1943, issue) we emphasized how the incidence of cash might well permit reduction of debt to the extent of some $200 million and with this accomplished, post-war prospects might well permit of earnings of between $4 and $6 per share thus not only justifying current quotations but even suggesting that the stock is in a buying rather than a selling range for longer-term purposes.

Yet, it must be recognized that gross revenues which have risen (see table) from $3.5 billion from 1938 to almost $7.5 billion in 1942 (probably $8.2 billion in 1943), will in all probability contract to between $5 and $5.5 billion in the post-war era despite prospects for good business volume for a series of years. Full brunt of this contraction will of necessity fall on rail equities. This, taken in conjunction with the psychological jolt which the market will be forced to absorb when clear-cut evidences of peace are in evidence, does warrant issuance of a warning signal at this juncture.

But this cautionary suggestion must be tempered with some measure of selectivity and discrimination. All rail equities are not alike. As we see it, there are four different types of equities. First are the high grade equities, the Pocahontas coalers and the Union Pacific (paritally oil). Despite high EPT, these companies are gradually building up cash, and the roads will emerge from the war period with either less debt outstanding, or greater cash resources, so that an already strong fundamental position will have (*Please turn to page* 322)

Long Term Financial Record of All Class I Railroads

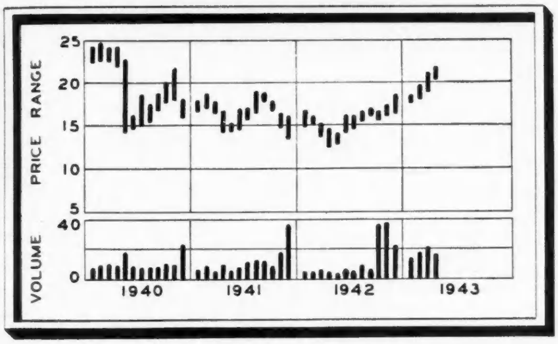
	1929	1937	1938	1939	1940	1941	1942
Oper. Revenues (mill.)	6279	4166	3565	3995	4296	5346	7466
Net Oper. Income (mill.)	1251	590	373	588	682	998	1480
Fixed charges (mill.)	714	646	626	629	618	620	628
Coverage (times)	1.75	0.91	0.59	0.93	1.10	1.60	2.35
Fixed charges (mill.—adjusted) (a)	350	350	350	350	350	350	350
Coverage (times)	3.57	1.68	1.05	1.68	1.94	2.85	4.22
Tax accruals (mill.)	396	325	340	355	396	547	1202
Operating Ratio %	71.7	74.9	76.3	73.0	71.9	68.5	61.6
Return on Investment %	4.84	2.27	1.43	2.25	2.59	3.75	5.56
Cash Items less Cash Accruals (mill.)	481.2	282.8	351.5	474.5	597.3	806.	1254*

* As of February 28, 1943.

(a) Adjusted to reduction of charges of $25 million in 1942, estimated reduction of $50 million in 1943, and reduction of charges of from 60% to 100% in 20 reorganizations still pending.

Six Sound Low-Price Stocks for Appreciation

CONGOLEUM-NAIRN INC.



BUSINESS: This is the largest domestic producer of felt-base floor coverings and an important maker of linoleum floor and wall coverings. A sizable portion of the company's business represents replacement demand. Through liberal advertising, the firm succeeded in developing a strong good-will for its trademarked products, such as Gold Seal Congoleum and a variety of NAIRN products. Bulk of output is distributed through wholesalers but considerable quantities are sold directly to contractors and Government agencies. Operations are highly mechanized and labor cost is low in relation to costs of raw materials of which rags, linseed oil, cork, burlap and asphalt are the most important. Restrictions on the use of certain materials for civilian use have been curtailing production but this loss is partly offset by increasing Government orders. Conversion of facilities begun early in 1942 is being continued.

FINANCIAL POSITION: Since 1934, current assets have held steady, reflecting close adjustment of dividends to profits. Cash position is strong and working capital at the end of last year amounted to about $12.75 per share. Current assets are $18.17 millions whereof $6.49 millions are in cash and securities. Inventories rose somewhat from their 1941 level, totalling $8.61 millions against $8.22 millions. Current liabilities of $3.48 millions are covered almost twice by cash and securities. There is no funded debt.

OUTLOOK: For the duration, volume is bound to suffer from the virtual elimination of private building; requirements for military purposes henceforth will also decline as camp construction is far advanced. Further war demand will come mainly from the shipbuilding program. Margins will be narrower reflecting the squeeze between rising costs and ceiling prices. The company however is endeavoring to offset at least part of the production loss by increasing output of war materials. The post-war outlook is promising and the company should do very well after the war when replacement demand is expected to be extremely heavy and the revival of building construction should further stimulate sales.

MARKET ACTION: Reflecting stable income and generous dividends, pre-war fluctuations of the stock were less than average. Since the war, volatility was somewhat more pronounced, the stock being primarily a "peace stock" and subject to the restrictive factors mentioned above. Presently, the common has risen about 100% above its 1942 low while our Index rose 117%. On the other hand, the stock is 45% below its 1937 high while our Index is 26% below that point.

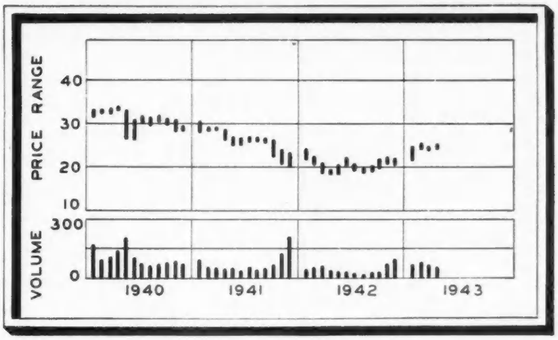
COMMENT: Recent price—24⅞. Yielding 5.9% on current dividend basis which should be maintained, the common merits consideration in view of the excellent post-war possibilities.

Long-Term Record

Year	Optg. Income (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$2.352	$2.102	$1.71	$1.85	35⅜-22
1935	2.704	2.242	1.32	1.85	45¾-27
1936	3.192	2.548	2.05	1.85	44½-30⅞
1937	3.208	2.524	2.03	2.00	45½-20
1938	1.880	1.265	1.02	0.75	29⅝-15
1939	2.982	2.111	1.70	1.50	30⅜-19
1940	2.504	1.617	1.30	1.25	24⅜-14
1941	5.037	2.016	1.62	1.50	18¾-13¼
1942	4.060	1.611	1.29	1.25	18⅝-12½

Thumbnail Stock Appraisal

COMMONWEALTH EDISON COMPANY



BUSINESS: Serving the important metropolitan area of Chicago and the equally active manufacturing area extending from there to the Mississippi River, this concern has developed into one of the country's largest and most successful utility operating systems. Since its formation in 1907, it never failed to show a yearly profit or pay a dividend on the common tock. Combined operations bring the consolidated annual gross to over $170 millions; thereof about 89% is derived from electric service and 10% from gas. Electric rates and consumption approximate the national averages. Property values are conservatively stated and provision for maintenance and depreciation is about average; depreciation alone, at about 3% of depreciable property, is above average.

FINANCIAL POSITION: The current position is strong. Current assets amount to $112.8 millions, with cash of $32.98 millions and Government securities of $50.59 millions almost twice covering current liabilities of $48.06 millions. Early in 1942, the concern sold privately $25 millions of 3% first mortgage bonds, proceeds to be applied to a heavy construction program to meet increased power requirements of war industries. This brought the system's funded debt at the end of 1942 to $345.0 millions, against $321.0 the year before. In 1942, fixed charges were 2.75 times earned.

OUTLOOK: Serving a territory characterized by wide diversity of industry, the company enjoys a promising operating outlook. Over the nearer term, earnings are not likely to vary much from the 1942 level; moderate revenue gains are expected as the area continues to benefit from war work but with taxes and costs rising, these gains are not likely to carry through to earnings. Any post-war improvement in profits will doubtless encourage conversion of debentures into common stock which will restrict per share earnings but also bolster the investment quality of the equity. 3½% convertible debentures are outstanding in the amount of $26.15 millions. The outlook, as it appears today, favors continuation of past stability of earnings and relatively liberal dividends.

MARKET ACTION: Indicative of the company's inherent stability, the stock has shown far less than average volatility. Currently, it stands some 40% above its 1942 low while our Index for 18 Public Utilities has risen fully 324%. The stock is still 30% below its 1937 high while our Index is 49% below its high for that year.

COMMENT: Recent price—24¼. Selling around its equity of $25.22 per share, the stock appears conservatively priced and should have market possibilities.

Long-Term Record

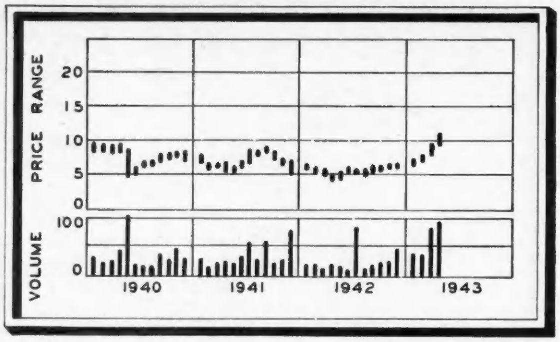
Year	Total Optg. Revenues (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934*	$75.929	$10.242	$6.37	$4.00	62 -34
1935*	79.635	10.455	6.38	4.00	98 -47
1936	130.74	11.289	1.90	1.25	29⅞-24
1937	140.12	16.202	2.45	1.56¼	34¾-20½
1938	139.54	19.701	2.37	1.33¾	28 -22⅛
1939	145.87	25.414	2.43	1.65	32⅛,-25⅛
1940	154.80	29.170	2.32	1.80	33 -25⅞
1941	165.48	26.747	2.10	1.80	30⅛-20
1942	172.43	22.108	1.74	1.60	23¾-17⅜

* Prior to consolidation and 4/1 stock split-up.

Thumbnail Stock Appraisal

Six Sound Low-Price Stocks for Appreciation

ALLIED STORES CORPORATION



BUSINESS: Functioning primarily as a holding company, the concern controls a large group of subsidiaries operating some sixty department stores in cities of considerable size throughout the United States. With the exception of two stores, in Seattle and Syracuse, N. Y., the parent company does not engage in merchandising activities. Principal units include the well known John Marsh store in Boston; others are located in Minneapolis, Cincinnatti, Baltimore, St. Paul and Akron. All operate under their own established names and management is highly decentralized though the parent company through a wholly owned subsidiary serves in an advisory and supervisory capacity, mainly in respect to purchasing and sales promotion. Principal lines are women's, men's and children's clothing and accessories, and home needs. Quality of the merchandise varies with the different stores but generally, medium and higher priced goods are sold; most of the larger units operate basement divisions appealing to the lower income group.

FINANCIAL POSITION: A sound working capital position has been built up which in June 1942 was further strengthened by borrowing $6 millions from banks under a five year revolving credit plan. At the end of 1942, cash amounted to $13.77 millions, nearly covering current liabilities of $14.66 millions. Working capital was $39.61 millions, including inventories of $23.48 millions compared with $24.21 millions the year before. Although earnings in the past improved steadily, virtually nothing was paid to stockholders, to conserve funds. In 1942, however, 45c was distributed, representing the first payment since 1937.

OUTLOOK: Sales and profits so far this year were very satisfactory, the former running 20% ahead of 1941 and profits showing a proportionate increase. Existing inventory should satisfy demand in the immediate future but subsequent results will probably reflect difficulties in obtaining well rounded lines. Maintenance of 1942 margins is not likely since much of the low-priced inventory is exhausted and costs are rising; however, most of the prospective drop in operating profits will be offset by lower taxes. The management's policy of acquiring additional stores whenever available on an attractive basis should have a favorable influence on post-war operations.

MARKET ACTION: Reflecting its status as a low-priced speculation, the stock displayed rather more than average volatility in the past. At present, it is 231% above its 1942 low while our Index has risen 117%. On the other hand, the stock is 40% below its 1937 high while our Index is 26% below that point.

COMMENT: Recent price—13¼. As sales are rather heavily concentrated in apparel lines, volume should hold up better than average during the war. Steadily improving finances and efficient management enhance existing post-war potentialities.

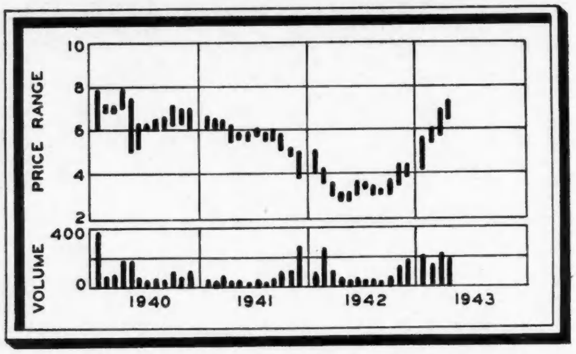
Long-Term Record

Year*	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$82.07	$1.127	D $0.19	......	....
1935	89.93	1.581	0.30	......	9 - 3⅛
1936	103.34	3.406	1.34	......	20⅛- 6¾
1937	107.55	2.904	0.96	$0.20(a)	21⅞- 6⅛
1938	103.24	2.233	0.59	......	13½- 4½
1939	112.12	3.435	1.26	......	11⅜- 6
1940	121.27	3.998	1.57	......	9⅜- 4½
1941	151.81	5.294	2.27	......	9 - 5
1942	170.82	5.681	2.50	0.45	6⅝- 4

* Years ended Jan. 31st. (a) Plus 1/100th share of 5% preferred stock. D—Deficit.

Thumbnail Stock Appraisal

STANDARD BRANDS INCORPORATED



BUSINESS: This company processes and distributes a diversified group of food products, its business being principally a continuation of the activities formerly conducted by Fleischmann Co. and other well established food concerns. Most important product is Fleischmann yeast, the output of which constitutes about two-thirds of the country's total yeast production. Other leading items are Fleischmann white distilled vinegar, Chase & Sanborn Coffee, Tender Leaf Tea, Royal Baking Powder and Royal desserts. Distillation of gin and whiskey, and distribution of domestic and controlled foreign liquors (Black & White) is undertaken by Fleischmann Distillery Corp. Additionally, the company in 1942 entered the vitamin field and latterly took up the distribution of films and the operation of a film development service. Products are extensively advertised and sales are now made primarily through jobbers instead of former direct deliveries to retail stores.

FINANCIAL POSITION: In spite of the company's development program, the financial position remains satisfactory with current assets at the end of 1942 amounting to $56.95 millions and working capital to $44.94 millions. A five-year revolving credit of $10 millions was arranged in 1942 but at the end of the year, there were no outstanding borrowings under this credit. Inventories totalled $30.36 millions against $36.20 the preceding year; cash of $14.54 millions more than covered current liabilities of $12.00 millions. Special reserves of $7 millions exist whereof $5 millions against possible future inventory losses and $2 millions for post-war rehabilitaion and contingencies.

OUTLOOK: Rationing, higher costs and ceiling prices indicate lower sales and narrower margins for a number of lines though a partial offset may be found in rising sales of vitamin tablets. The distillery division is now making alcohol for the Government. Normally, sales are moderately influenced by variations in consumer income which together with the trend of commodity prices constitute the principal determinants of earnings. War-time influences including taxes will tend to reduce operating income for the duration but post-war prospects are enhanced by increasing diversification of products, the result of research and acquisition of new lines through purchase of going concerns, such as recently the Standard Margarine Co. and Loudon Packing Co.

MARKET ACTION: Limited dividends and somewhat unstable earnings trend imparted more than average volatility in the past but post-war potentialities should make for stabler market action in the future. Currently the stock is 168% above its 1942 low and 55% below its 1937 high; our Index is 117% above, and 26% below these points, respectively.

COMMENT: Recent price—7⅜. Post-war possibilities favor profitable fruition of organizational changes and policy of expansion undertaken by the new management. Conservative fiscal policy should aid this trend and enhance appreciation prospects.

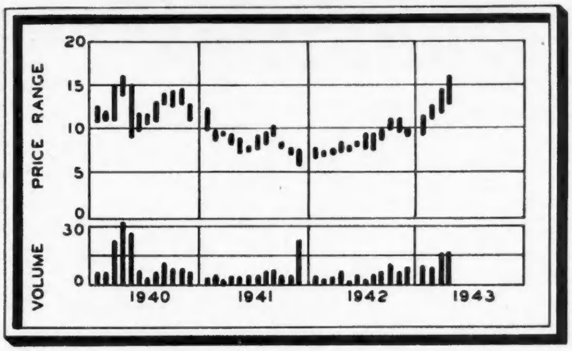
Long-Term Record

Year	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	$100.44	$13.888	$1.06	$1.00	25¼-17¼
1935	102.04	12.746	0.97	0.95	19⅛-12½
1936	114.97	14.706	1.12	1.05	18⅛-14⅜
1937	122.51	9.865	0.73	0.80	16¼- 7½
1938	108.28	8.796	0.62	0.62½	9¼- 6½
1939	108.85	7.801	0.55	0.47½	7¼- 5⅜
1940	98.874	9.515	0.68	0.40	7⅞- 5
1941	119.56	7.757	0.54	0.50	6⅝- 3¾
1942	144.35	7.234	0.50	0.10	5 - 2¾

Thumbnail Stock Appraisal

Six Sound Low-Price Stocks for Appreciation

MOTOR PRODUCTS CORPORATION



BUSINESS: The company normally makes a large variety of automobile parts and decorative interior trim for automobile bodies. Parts lines include windshield frames, ventilating equipment, instrument panels, bumper guards, etc. The concern is also extensively engaged in nickel and chrom plating and the application of imitation wood finishes to steel. While the company successfully maintained its position in the face of keen competition over a period of many years, the entry of Briggs Manufacturing Co. into its field tended to limit profit margins in one important division. Most products normally are sold to the automobile industry as original equipment and with this outlet suspended for the duration, plants have been converted extensively to armament production including the Deep-Freeze food container division which is now engaged in the manufacture of low-temperature machines for various uses in the war effort.

FINANCIAL POSITION: Despite occasional losses and relatively liberal dividends in good years, a strong financial position was maintained. Expanding war work however required additional capital and bank loans were secured of which $700,000 were outstanding at the end of last June. As of that date, working capital amounted to $3.76 millions; inventories were $3.34 millions and cash and securities totalled $1.70 millions. Recent earnings were on the upgrade; for the fiscal year ended 6/30/42 they were $1.95 per share while $1.99 was reported for nine months ending 3/31/43.

OUTLOOK: Unless materials shortages prove restrictive, armament production will increase during the coming months and sales should reach new peaks. Sizable orders were received for bomber turrets and facilities have been adjusted to handle this business. Because of economies flowing from large-scale operations, margins should continue satisfactory though probably below normal, while earnings will be modified by taxes. Post-war prospects are closely tied up with the automobile industry and should be promising although competition and prices can be expected to have an important influence on results.

MARKET ACTION: Reflecting unstable earnings and erratic dividends, the stock in the past displayed more than average volatility. Currently, it shows a recovery of 162% from its 1942 low while our Combined Index has risen 117%. On the other hand, the stock is still 58% below its 1937 high while our Index is 26% below that point.

COMMENT: Recent price—16⅜. The stock, yielding 6%, sells below equity of $17.63 per share. Current dividend basis is expected to be maintained. Relatively small reconversion costs and the company's diversified position combine to enhance post-war prospects.

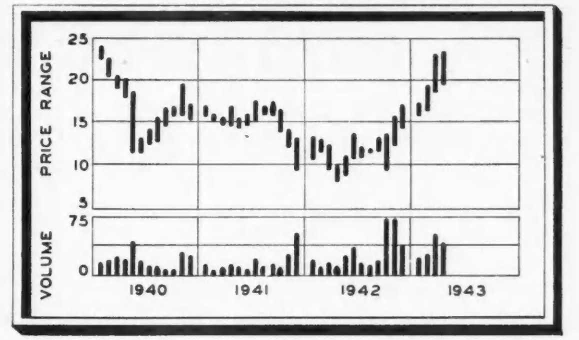
Long-Term Record

Year*	Net Sales (millions)	Net Income (millions)	Net Per Share	Dividends	Price Range
1934	....	$0.135	$0.69	Nil	44¾-15¼
1935	$13.758	1.079	2.76	$2.00	69 -17⅛
1936	17.214	1.372	3.51	3.25(b)	43½-28⅜(c)
1937	20.172	2.147	5.49	5.00	38½-12½
1938	8.721	D 0.619	D 1.58	Nil	22¾-10½
1939	11.107	D 0.465	D 1.19	Nil	19 - 9½
1940(a)	7.715	0.651	1.67	1.00	16 - 8⅞
1941	19.252	0.405	1.04	1.00	12 - 5½
1942	14.560	0.757	1.95	1.00	11 - 6¼

(a) Six mos. ended June 30th. * 1934-39 calendar year; thereafter fiscal year ending 6/30. D Deficit. (b) Plus 100% stock dividend. (c) After 100% stock dividend.

Thumbnail Stock Appraisal

DOME MINES LIMITED



BUSINESS: This is the third largest gold producer in the Porcupine District of Ontario, Canada. The company's potential life was greatly increased in recent years by the acquisition of surrounding properties; total holdings now consist of 2,576 acres at South Porcupine. The concern has a 60% interest in Sigma Mines Ltd., fully owns the Dome Exploration Co. Ltd. (Quebec) and holds 30,000 shares of East Geduld Mines Ltd., one of the larger South African gold mines. Ore reserves are estimated at 2.43 million tons which, at current milling rates, would sustain operations for about five years. Gross production in 1942 came to 170,547 ounces of fine gold compared with 201,472 in 1941.

FINANCIAL POSITION: Despite liberal distribution of its cash income in the past, the company's finances improved steadily. Working capital requirements are small because the gold is sold directly to the Canadian Government. The current position has been exceptionally strong since consolidation in 1937 of the former dividend assurance fund ($3 millions) with liquid assets. Current assets at the end of 1942 were $10.11 millions, including cash of $1.22 millions and securities of $7.07 millions; working capital stood at $7.85 millions against $7.73 millions the year before.

OUTLOOK: While the company so far successfully maintained ore reserves at adequate levels, ore production has been declining owing to shortages of labor and materials, resulting in moderately lower net. This downtrend, however, may be halted by increasing output of strategic minerals. To this end, the concern is developing its molybdenum deposits in Northern Quebec through a newly formed subsidiary, the Indian Molybdenum Ltd., which is expected to begin milling operations at the end of June 1943. A Government order for two million pounds of molybdenum was obtained by the latter. Apart from shortages, gold production is faced with rising costs which, however, should be cushioned by ample profit margins; in 1942 operating costs, exclusive of taxes and depreciation, were $4.56 per ton milled. Over the longer term, the future of the gold price is, of course, the principal determinant of earnings.

MARKET ACTION: Reflecting stability of income, assured by the U. S. gold policy, the stock prior to the war exhibited less than average volatility. With various uncertainties injected by the war, fluctuations became wider. The stock sharply recovered from its 1942 low, advancing 159% against a rise of our Index of 117%, when fears of a change in the U. S. gold policy proved groundless.

COMMENT: Recent price—20¾. With growing confidence in the future of gold after the war, the stock, at present levels yielding about 9.5%, appears to have good long-term possibilities.

Long-Term Record

Year	Optg. Income (millions)	Net Income* (millions)	Net Per Share	Dividends‡	Price Range
1934	$4.549	$3.882	$4.07	$3.50	46¼-32
1935	4.665	3.719	3.90	4.00	44⅞-34⅛
1936	4.749	4.144	4.26	4.00	61½-41½
1937	4.658	4.116	4.23	4.50	57¼-35
1938	4.731	4.055	2.08	3.00	34⅞-27⅛(c)
1939	4.848	3.842	1.97	2.00	34 -20¼
1940	5.318	4.006	2.06	2.00(b)	23⅞-11⅛
1941	5.017	3.846	1.98	2.00(a)	17⅛- 9¼
1942	4.023	3.342	1.72	2.00	16¾- 8

* Before depletion. ‡ Paid in U. S. funds except as indicated. (a) Paid in Canadian Funds. (b) Includes fifty cents paid in Canadian Funds. (c) After 2/1 split-up.

Thumbnail Stock Appraisal

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.**

Special rates upon request for those requiring additional service.

Timken Roller Bearing

Please give me your opinion of Timken Roller Bearing common at this time. Are prospects of this economy good enough to warrant adding to my present holdings which were purchased in 1937 at higher levels? All of my investments are made with reasonable safety, income and appreciation as the object.—G. W. M., Salt Lake City, Utah.

Timken Roller Bearing Company earned $2.68 in 1942 on its common stock as compared with $3.92 in 1941. In the pre-war years of 1936 to 1939, inclusive, the lowest amount earned in this period in any year was 59 cents per share, and the highest $4.49. It paid $2 dividends in 1942 and has paid dividends continuously for the past 21 years. This company is the leading producer of anti-friction bearings for motor vehicles and machinery of all kinds. The automobile industry is normally the largest market for its products. The company is now participating in the war production as large suppliers of special bearings for aircraft, military vehicles, gun carriages, trucks and locomotives. This company should do exceptionally well after the cessation of hostilities and further expansion of the business is virtually assured by the widening adaptability of spiral bearings and by the company's activity in the special high grade alloy field. We see no objection to your averaging the cost of your original commitment at current market price around 47¼.

Warner & Swasey Co.

I have 20 shares of Warner & Swasey bought at $23.00. Do you advise holding or averaging or selling? Shall be glad to hear from you.—J. E. H., Albany, New York.

Warner & Swasey Company earned $2.43 in 1942 as compared with $4.81 in 1941. It paid $1.60 in dividends in 1942. This stock is traded in over-the-counter and currently selling around 10. Assuming further large additions to special reserve, earnings this year are expected to decline from the $2.43 shown in 1942. The latter included a post-war refund of $1.92 and was after reserve of $4.24. While conservatively priced and yielding 16% based on the $1.60 dividend paid last year, the common stock is limited in appeal because of the prospective post-war slump. Unfilled orders are said to be sufficient for six months operation at the current rate. The demand for turret lathes may recede later in the year but operations are expected to continue at a good level aided by the manufacture of special war products. While we would continue to hold this stock for the time being, we think your funds could shortly be used more productively elsewhere and on any appreciable advance, we would liquidate same.

Associated Dry Goods

As a subscriber I should appreciate the following information concerning Associated Dry Goods common. What stores do they supply or own, or how do they operate? What is the book value of this company? Its financial position? Earnings? What date was the dividend declared this year, and what is the date of the next meeting that might concern dividends on the common? — E. L. K., Park Ridge, Illinois.

Associated Dry Goods Corp. is a holding company incorporated in 1916. On January 31, 1942, it held 100 per cent voting power in the following department stores: J. N. Adams & Co., Hahne & Co., James McCreery & Co., Steward Drygoods Co., William Hengerer Co. It also owned voting power of 90 per cent in Lord & Taylor.

This company earned $1.72 on the common stock for the fiscal year ending January 31, 1943 as compared with $2.37 in 1942. However, the latter earnings did not give effect to the preferred dividends which were then in arrears.

The company's balance sheet as of January 31, 1943 showed a strong financial position, total current assets amounting to $25,495,987, as compared with total current liabilities of $6,808,897, with net current assets of $18,687,090. Cash amounted to $7,106,528 as compared with $4,826,755 in the preceding year. Mortgages payable amounted to $3,020,000 and the company has two issues of preferred stock outstanding totalling about $19,-

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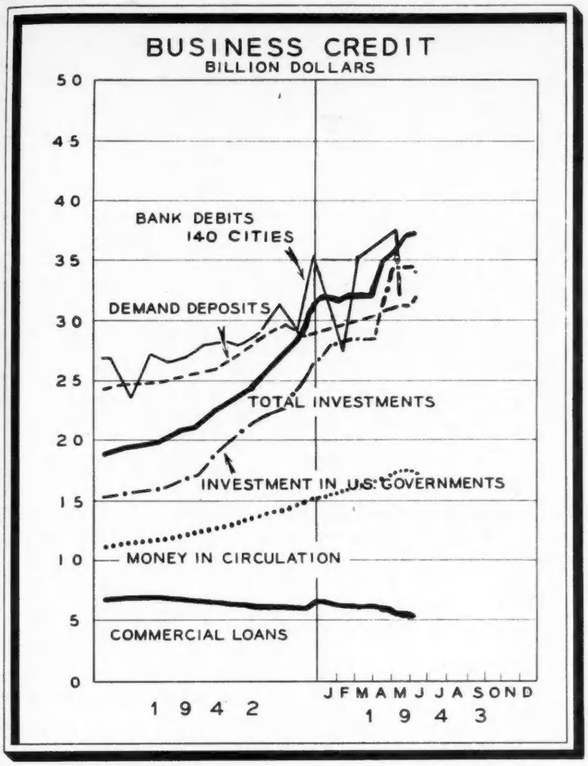

CONCLUSIONS

MONEY AND CREDIT — Congressional leaders and Government fiscal experts agree that corporate and individual tax rates on 1943 incomes will not be increased.

TRADE—May chain stores sales only fractionally above last year; but department store sales rise 13%.

INDUSTRY—Treasury estimates that 1943 corporate profits after taxes will top last year by 16%, with dividends up 19%.

COMMODITIES — Commodity markets dull and slightly reactionary pending clarification of crop prospects and Government's subsidy program.

The Business Analyst

The past fortnight witnessed a sharp dip of more than two points in per capita **business activity** in consequence of the one-week coal miners' strike, at a time when higher-ups at Washington are stressing the need for greater munitions output and further drastic cuts in production of civilian goods.

* * *

WPB Chairman Nelson's prediction that U. S. **war expenditures** this year will total $106 billion—80% more than last year—may turn out to have been somewhat over-optimistic despite the near-miraculous increase of 467% in munitions output between November, 1941, and April, 1943. Passing over the inconsistent circumstance that 180% of war expenditures previously reported for last year would be only $93 billion—not $106 billion—it is still hard to see where the manpower, raw materials and plant capacity are coming from to make such a steep increase possible.

* * *

War expenditures during the first five months of 1943 were only $34 billion. To reach $106 billion for the full calendar year would involve monthly expenditures of $10.3 billion in the remaining seven months and a December peak of around $13.2 billion, against actual expeditures of only $7.4 billion in May. This would bring an increase in the Federal Reserve Board's index of industrial production to

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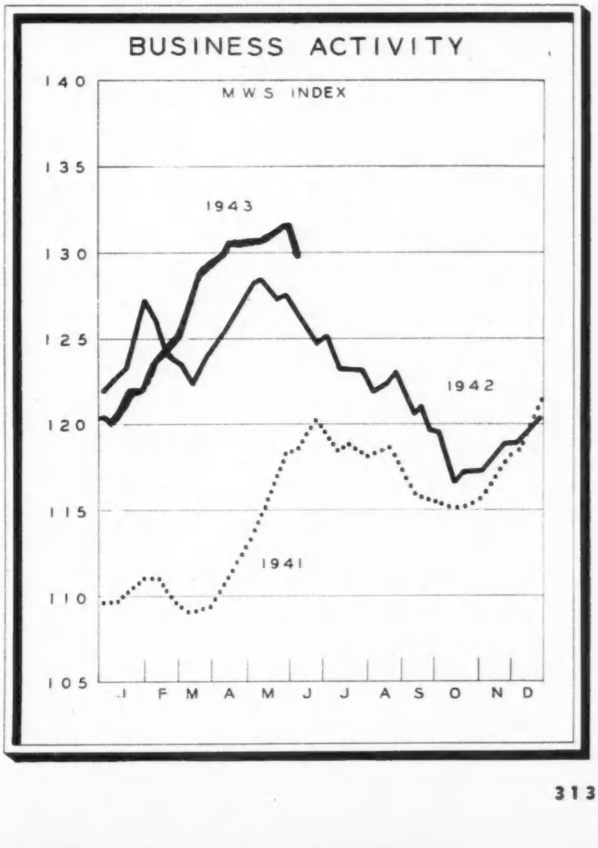


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BANK DEBITS ($b) 101 Cities	June 14	1.69	1.57	0.98	0.43
New York City	June 14	105.6	103.9	32.4	14.3
FEDERAL GROSS DEBT—$b	June 14	136.6	136.3	70.2	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	June 9	32.1	31.4	26.0	24.3
Currency in Circulation	June 9	17.2	17.2	12.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 9	5.33	5.27	3.70	3.92
100 Other Cities—$b	June 9	7.15	7.12	5.70	5.57
INCOME PAYMENTS—$b (cd)	Apr.	11.16	11.22	8.91	8.11
Salaries & Wages (cd)	Apr.	8.04	7.92	6.18	5.56
Interest & Dividends (cd)	Apr.	0.75	0.91	0.77	0.55
Farm Marketing Income (ag)	Apr.	1.28	1.31	0.98	1.21
Includ'g Govt. Payments (ag)	Apr.	1.35	1.40	1.06	1.28
CIVILIAN EMPLOYMENT (cb) m	Apr.	51.2	51.0	50.7	50.2
Agricultural Employment	Apr.	9.6	9.0	9.3	9.0
Employees, Manufacturing	Apr.	16.0	16.0	14.0	13.6
Employees, Government	Apr.	5.9	5.9	4.9	4.5
UNEMPLOYMENT (cb) m	Apr.	0.9	1.0	3.0	3.9
FACTORY EMPLOYMENT (lb4)	Apr.	167	167	146	141
Durable Goods	Apr.	225	224	180	168
Non-Durable Goods	Apr.	122	123	120	120
FACTORY PAYROLLS (lb4)	Mar.	304	297	215	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Mar.	44.8	44.5	42.7	40.3
Hourly Wage (cents)	Mar.	93.4	92.4	81.1	78.1
Weekly Wage ($)	Mar.	41.84	41.12	34.62	32.79
PRICES—Wholesale (lb2)	June 5	103.9	104.0	98.7	92.2
Retail (fi)	May	113.0	113.2	113.2	107.5
COST OF LIVING (lb3)	Apr.	124.1	122.8	115.1	110.2
Food	Apr.	140.6	137.4	119.6	113.1
Clothing	Apr.	127.8	127.6	126.5	113.8
Rent	Apr.	108.0	108.0	109.2	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Apr.	5.19	5.08	4.59	4.57
Durable Goods	Apr.	0.88	0.82	0.86	1.07
Non-Durable Goods	Apr.	4.32	4.26	3.73	3.47
Chain Store Sales (ca)	May	171	175	170	151
Dept. Store Sales (rb) (1)	May	122	128	108	116
Dept. Store Stocks (rb2)	Apr.	86	90	118	95
COMMERCIAL FAILURES (db)	May	281	362	955	842
MANUFACTURERS'					
New Orders (cd2)—Total	Apr.	284	284	292	212
Durable Goods	Apr.	418	433	449	265
Non-Durable Goods	Apr.	197	188	192	178
Shipments (cd3)—Total	Apr.	253	249	200	183
Durable Goods	Apr.	338	330	239	220
Non-Durable Goods	Apr.	186	185	168	155
Inventories, end Month (cd3)	Apr.	175	175	167	153
Durable Goods	Apr.	213	211	187	170
Non-Durable Goods	Apr.	142	144	150	137

PRESENT POSITION AND OUTLOOK

(Continued from page 313)

around 300 for December—a 50% rise above December, 1942. Thus far this year the rate of annual increase has been only 18%—slightly less than the annual rate of increase in **factory man-hours,** owing to a quite natural sag in efficiency under longer hours and employment of inexperienced workers.

* * *

The Office of War Information reports that **employment of women in industry** has risen from 10.2 million in December, 1940, to 14.1 million in April, 1943. Meanwhile the number of men employed in civilian industry has fallen off by approximately half a million. After the war most of the women who have been drawn into defense work will have to resume their pre-war pursuits to make way for our returning Soldiers and Sailors.

* * *

The National City Bank estimates that the total **war cost to the United Nations** for combating the Axis powers will amount to around $450 billion by the end of 1943, of which our share will be more than a third. To help defray this cost and soften its inflationary effect Secretary Morgenthau wants Congress to authorize $16 billion of additional **taxes** this year—$14 billion of which upon individual incomes, and $1.3 billion upon corporations mainly through lifting the present 40% normal plus surtax rate to 50% or 55%.

* * *

Congress may approve part of the increase late this year; but at the present time is opposed to a further increase in personal income tax rates before 1944 at the earliest. The Administration is still opposed to **forced savings.** In lieu of this the Treasury is endeavoring to stimulate much heavier voluntary purchases of war bonds.

* * *

According to the Bureau of Labor's recently revised index (the only official index in the world, by the way, that professes to include even a modicum of black market prices) there is no slackening in the pace at which **living costs** have been rising. If deeds speak louder than words, Government agencies appear to construe the "line" that the President wants held as an upward-slanting, rather than a level, line. OPA plans to spend a couple of billions in subsidies to roll back living costs less than 1%, while WLB continues to grant wage increases to pressure groups that have already had the largest increases.

* * *

Subject to a 10% possible margin of error, Treasury estimates place **corporate profits** (after taxes at current rates) this year at $9.1 billion, compared with $7.8 billion last year, $8.3

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—I—pc	June 5	129.5	131.6	126.3	118.2
(M. W. S.)—I—np	June 5	155.3	158.0	149.8	139.5
INDUSTRIAL PRODUCTION (rb3)	Apr.	203	202	173	167
Durable Goods, Mfr.	Apr.	300	298	234	215
Non-Durable Goods, Mfr.	Apr.	148	147	130	141
STEEL INGOT PRODUCTION (st)m	May	7.55	7.37	7.38	6.96
Cumulative from Jan. 1	May	36.84	29.29	35.52	55.69
ELEC. POWER OUTPUT (K. W. H.)m	June 12	4,040	3,926	3,464	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	June 10	70	107	380	93.5
Cumulative from Jan. 1	June 10	1,668	1,599	4,591	5,692
PETROLEUM—bbls. m					
Crude Output Daily	June 12	3.99	3.93	3.70	4.11
Gasoline Stocks	June 12	81.11	82.20	91.85	87.84
Fuel Oil Stocks	June 12	67.65	67.46	79.12	94.13
Heating Oil Stocks	June 12	32.56	32.58	30.45	54.85
CARLOADINGS—t	June 5	668	853	855	833
Grain	June 5	38	43	36	43
Coal	June 5	41	172	164	150
Manufacturing & Miscellaneous	June 5	357	383	385	379
Mdse., L. C. L.	June 5	91	98	98	156
Ore	June 5	75	83	92	36
GENERAL					
Bituminous Coal Prod. (st)m	June 5	3.05	11.94	11.03	10.80
Lumber Production (bd. ft.)m	June 5	605	651	705	632
Paperboard, New Orders (st) t	June 12	138	134	92	132
Cigarette Production—b	Apr.	19.94	20.61	17.38	17.14
Portland Cement Shipments (bbls.) m	Apr.	12.76	10.11	14.77	13.72

PRESENT POSITION AND OUTLOOK

billion in 1941, $7.3 billion in 1940 and $6.0 billion in 1939. **Dividend distributions** are estimated for this year at $4.9 billion (if taxes are not raised), against $4.1 billion last year, $4.4 billion in 1941, $4.3 billion in 1940 and $3.9 billion in 1939.

* * *

Dividend payments in April, according to the Department of Commerce, were 7% below last year, against a four-months' decrease of only 5%. Rail dividends for four months were 41% more liberal than in the like period of 1942.

* * *

Beginning with the current issue, we are presenting **bank debits** in the form of a 13-week moving average ending at dates heading the four columns of the statistical section of the Business Analyst. The effect of this is to smooth out irregular week-to-week fluctuations. Ordinarily this 13-week average will maintain approximately the same ratio as **income payments** to figures reported for the corresponding period a year earlier; though in war time bank debits, especially at New York, will be padded somewhat by Government bond sales to non-banking subscribers. In peace times debits normally sag to a seasonal low in mid-summer and rise to a maximum around the year-end holidays.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. db—Dun & Bradstreet's. en—Engineering News-Record. fi—Fairchild Index, end of Mo., Dec. 31, 1930—100. I—Seasonally Adjusted Index, 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—End of Mo., Federal Reserve Board, seasonally adjusted index, 1923-5—100. rb3—Federal Reserve Board, seasonally adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

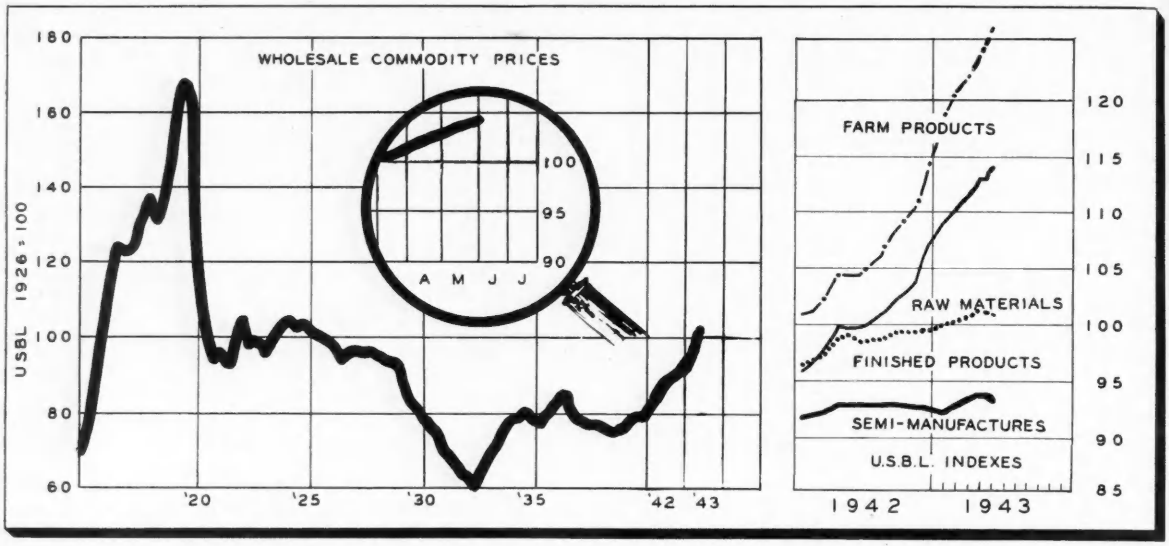
No. of Issues (1925 Close—100)	1943 Indexes High	Low	June 12	June 19
273 COMBINED AVERAGE	89.9	54.5	86.8	84.8
3 Agricultural Implements	150.5	105.2	150.5F	147.4
9 Aircraft (1927 Cl.—100)	179.2	131.8	165.4	160.3
5 Air Lines (1934 Cl.—100)	491.9	363.1	490.4	485.8
5 Amusement	75.9	40.2	74.9	72.6
12 Automobile Accessories	142.1	83.0	136.4	131.5
13 Automobiles	21.0	9.7	20.1	19.1
3 Baking (1926 Cl.—100)	15.0	8.5	14.3	14.5
3 Business Machines	197.1	129.4	190.0	184.0
2 Bus Lines (1926 Cl.—100)	96.6	54.9	90.3	85.9
5 Chemicals	189.5	153.5	181.5	180.0
13 Construction	38.0	23.3	36.7	36.2
5 Containers	236.7	177.1	232.2	232.6
8 Copper & Brass	82.8	63.6	76.8	74.0
2 Dairy Products	39.3	29.7	37.6	37.5
6 Department Stores	28.0	15.4	28.0F	27.7
5 Drugs & Toilet Articles	88.3	50.9	86.8	85.3
2 Finance Companies	237.3	152.6	221.9	220.5
6 Food Brands	128.5	85.5	127.3	128.5Q
2 Food Stores	45.1	37.7	44.5	43.8
4 Furniture	58.3	35.0	55.8	57.4
3 Gold Mining	912.6	610.3	845.1	825.9
6 Investment Trusts	39.1	22.7	36.8	35.9

(Nov. 14, 1936, Cl.—100)	High	Low	June 12	June 19
100 HIGH PRICED STOCKS	66.31	52.87	65.23	64.58
100 LOW PRICED STOCKS	87.49	43.61	83.67	81.61
3 Liquor (1932 Cl.—100)	289.2	197.1	278.8	279.5
8 Machinery	109.6	82.6	108.0	107.2
2 Mail Order	83.1	61.8	82.3	81.4
3 Meat Packing	56.7	34.9	55.4	53.4
10 Metals, non-Ferrous	155.7	106.8	145.9	141.6
3 Paper	13.5	9.0	13.1	12.5
21 Petroleum	132.3	86.9	129.7	128.0
18 Public Utilities	58.1	23.2	53.8	51.7
3 Radio (1927 Cl.—100)	25.9	12.1	24.8	24.4
7 Railroad Equipment	57.4	32.1	53.7	52.0
17 Railroads	18.6	9.8	17.0	16.6
2 Shipbuilding	106.1	83.4	92.4	90.4
3 Soft Drinks	288.8	197.8	280.3	272.4
12 Steel & Iron	76.2	57.6	73.6	73.8
2 Sugar	47.2	32.2	47.2Q	45.2
2 Sulphur	193.2	180.2	190.0	189.7
3 Telephone & Telegraph	111.5	67.0	106.6	100.9
3 Textiles	54.7	33.7	53.9	53.0
3 Tires & Rubber	26.5	16.5	25.5	25.6
4 Tobacco	67.3	52.2	65.2	64.0
2 Variety Stores	230.7	182.4	228.7	226.5
20 Unclassified (1942 Cl.—100)	190.0	100.0	184.8	176.2

New HIGH since: F—1937; Q—1929.

Trend of Commodities

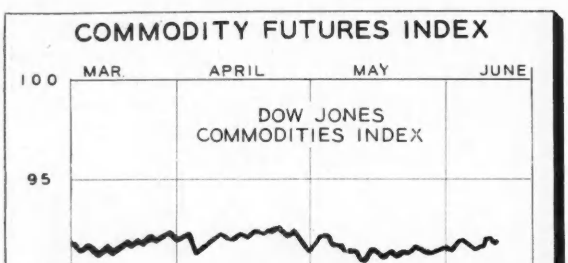
Grain markets have been dull and slightly reactionary since our last issue while waiting for more light on crop prospects and Government subsidies. Extensive use of corn for feed has reduced supplies to a point where corn products refiners face drastic cuts in production until the new crop is harvested. To relieve the critical shortage the CCC has called loans on the 1942 crop; but the resulting releases will amount to only about a week's supply. The nation's supposedly superabundant wheat surplus is melting under expanding demand for export and domestic consumption and for production of alcohol and synthetic rubber. A considerable portion of the 1943 harvest may have to be piled on the ground for lack of grain cars to move it. Present holders of wheat are reluctant to sell, while processors hesitate to buy, until it is known if the Government will sanction an upward adjustment in flour price ceilings to conform with the higher loan rate on the 1943 crop. Pending more definite information on Government subsidies, packers and canners are afraid to continue normal production. Department of Agriculture says crop prospects on June 1 were the poorest in three years; but Food Administrator Davis declares that 1943 crops will be the largest on record, excepting 1942.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

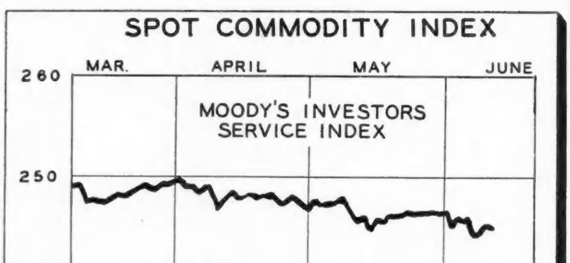
Spot Market Prices—August, 1939, equals 100

	Date June 16	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	176.2	176.3	196.1	176.2	171.8	166.5	156.9
11 Import Commodities	167.5	167.3	167.6	166.8	163.5	162.6	157.5
17 Domestic Commodities	182.0	182.4	181.9	182.5	177.4	169.0	156.6
7 Domestic Agricultural	207.9	208.0	205.5	206.5	192.3	180.5	163.9
12 Foodstuffs	200.6	200.8	200.3	201.9	195.1	185.9	169.2
16 Raw Industrials	159.7	159.7	159.2	159.4	156.0	153.1	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	92.32	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1943	1942	1941	1940	1939	1938	1937
High	246.8	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

What's Ahead for the Bond Market

(*Continued from page 297*)

acted more disappointingly in the last few weeks. Speculative rail obligations are at the lowest level since mid-April and defaulted bonds are distinctly soggy. Since the turnover in listed bonds has been principally in these features, their weakness is an indication of a lack of faith in the rail situation. The speculators reason that war is the cause of capacity traffic in the rails, and that the prospect of peace indicates a steep decline in revenue and with it an end of the earnings provision for marginal and defaulted bonds.

The reasoning is much too glib. Many defaulted and marginal rail bonds are in the best position in many years. During the 1936-7 upswing in quotations, with a poorer cash position than today and with a much greater volume of preceding debt, with smaller revenues and far more antiquated equipment, the prices of these bonds were higher, and the subsequent recovery of the rails has confirmed the then optimism of buyers.

Hence there are still good opportunities to be found in this group. They have always been the best media for speculation in most periods of advancing earnings, for they reflect earnings gains before the common stocks and yet have pretty much the same room for improvement.

The search for income in bonds must be confined to the large intermediate group whose earnings and principal are secure (so far as present indications can carry us) but for which trustee and institutional demand has been too small to command a premium because of mere legality. Such bonds have been undervalued comparatively, and even if interest rates stiffen, they will be welcome additions to the portfolios of estates and universities and foundations, keen for yields better than those of the very highest quality senior obligations.

Answers to Inquiries

(*Continued from page* 312)

000,000. The book value of the common stock is approximately $29 per share.

The company cleared up all dividend arrears on its preferred stock in 1942. No dividends were paid on the common stock from 1931 to 1942, inclusive. In March, 1943, the company declared a 50 cent dividend on the common stock and designated it as a year-end dividend. It sold ex-dividend March 12th, payable April 7th, 1943. The company has not announced any dividend meeting for common stock action recently.

While profits may be somewhat smaller this year, additional common dividend payments may be expected from time time. The common stock appears promising as a low priced speculation.

Conversion of Baldwin Locomotive Bonds

The undersigned holder of 1M Baldwin Locomotive Works 6% convertible series due 1950 has received "Notice of Redemption" and "Notice of Conversion Privileges" for conversion into V.T.C.—sixty-five shares $13.00 par value at rate of sixty-five shares per thousand dollar bond.

Should the bond be sold at current price or tendered for common stock conversion? Your suggestion as to what action is deemed most advantageous will be appreciated.—M. J. G., Louisville, Ky.

Baldwin Locomotive refunding 6s have been called for redemption August 2nd, 1943, at 105 and will continue to be convertible into common stock up to the close of business that day. The penalty for failure to convert will be a substantial monetary loss as the difference between the redemption price and the current market price is about $152 for each $1,000 bond. Assuming a price of 18½ for the common stock, the market value of the 65 shares into which a $1,000 bond is convertible would be about $1,202.00.

Baldwin Locomotive earned $4.23 per share on the common stock in 1942 as compared with $3.71 in 1941. It paid $1.00 dividend in December, 1942, and recently declared 75 cents payable June 30th to stockholders of record June 14th. Undoubtedly another dividend payment will be made this year. The common stock appears to be a fair speculation at current market price. However, whether you should convert your bond depends largely on whether you wish to hold a bond of medium grade (Baldwin 6s are rated B-1) or go into a more speculative security. If you prefer a better grade investment we would sell the bond.

National Fuel Gas

For several years we have possessed in our family a good sized block of National Fuel Gas Co. The company's record over many years as regards the payment of dividends has been most satisfactory, although in recent years the earnings have been falling off. Recently, I understand that the Rockefeller Foundation in New York disposed of approximately 412,000 shares or one half of its holdings to the public. Inasmuch as I derive a considerable portion of my income from dividends on this stock, considering it to be a good investment medium, would you advise me to continue to own the stock or would you prefer to advise selling it and investing the proceeds in some other security of good investment calibre? I do not need to dispose of the stock in order to raise cash. I gradually purchased 500 shares at average price of 12½ and 400 shares were acquired through a legacy about two years ago.—G. W. E., Buffalo, New York.

This company was incorporated in the State of New Jersey in 1902 as successors to the National Gas Trust. Its subsidiaries supply natural and mixed gas to a large territory in western Pennsylvania, western New York, eastern Ohio and Ontario, Canada, serving a population of 1,325,355. The company has no funded debt or preferred stock, its capitalization consisting solely of 3,810,183 shares of no par value common. It earned 83 cents in 1938, 95 cents in 1939, $1.12 in 1940, 93 cents in 1941 and 90 cents in 1942. Dividends have been paid regularly since the present shares were issued in 1927. The present dividend rate is $1 and has been paid for a number of years. The price range this year has been: high 12; low 8½; last 11. At the present price the income yield is 9.09%. The company's strong financial position has permitted the continuation of the $1 dividend rate although the earnings above shown indicate that it was not earned in several years. The highest this stock sold since 1937 was 19½ and the low was 8. The company has a stronge financial position. The latest available balance sheet as of December 31, 1942, show total current assets of $14,947,701, as compared with total current liabilities of $4,815,-131, leaving net current assets of $10,131,770. Cash and time deposits amounted to $6,864,416 and the company's sûrplus amounted to $27,523,369. While we do not know the total value of your security portfolio, your holdings in this stock appear ample. While we see no valid reason to sell this stock at this time, we would prefer to see you have better diversification especially if you are interested in capital appreciation.

For Profit and Income

(*Continued from page* 305)

dividend payment over the twelve years 1931-1942 was $2.96. Very few industrials—let alone rails—can match this. Debt interest has been cut about 26 per cent over the past six years, with fixed charges now at record low of less than $7,500,000 a year. Another $30,000,000 of bond debt is slated for retirement.

Backward Groups

From the recovery high of March to the early June high, our broad index of 273 stocks advanced approximately 13 per cent. Over this period a rather long list of groups failed to go ahead and a few showed a net decline. Among the poorer-than-average groups in market performance for this recent period have been aircraft, machinery, metals, steel, shipbuilding, copper and brass, paper, tires and chemicals. The first six names have long been tagged in the popular mind as "war stocks" and their investment disfavor is nothing new. Paper is not in the "war stock" class but nevertheless has, for other reasons, been in

persistent disfavor. Chemicals no doubt flattened out simply because, no matter how great their investment merits, they were considered high enough. Main trouble with the tire group since March is that it had previously gone up 235 per cent in about eleven months. They don't go up forever.

Watch the World Go By—

(*Continued from page* 289)

enjoys parity in this strange black market.

The Swedish premium over the dollar is much slenderer, because of the constant impeachments of Sweden's neutrality in the House of Commons and by Russia, and it is there that one can see (since the dollar is at only a slight discount) that the actual discount on the dollar, for intrinsic reasons, hardly exists at all.

The most entertaining feature of the whole business is yet to come. Once American victory becomes clear to the most prejudiced understanding, then the scramble for dollars may reach opera-bouffe proportions. The German has annihilated the value of Polish, Rumanian, Bulgarian, Yugoslav, Greek, Occupation French, Occupation Belgian and other local currencies. The unfortunate recipients of this forced currency, will try to race each other to get some real money by dumping as many of these notes as they can on the few possessors of pounds or dollars. They will try to get them to give up some of their dollars by multiplying the quotation they get in this compulsory money, which has no backing at all. Since the few Swiss francs could not begin to meet the demand, and since the blockade prevents this gentry from getting to Latin America, we may see dollars quoted at fantastic premiums in the very markets where fools once tendered them for discounts. In this war, as in all others, once the tide turns, it is registered in outside markets by secret hand to hand transactions. This hidden chapter of the war will then come to its happy conclusion.

If Germany Falls This Year

(*Continued from page* 284)

Reconversion difficulties do not appear formidable.

One very interesting group—into which radio, chemicals and electrical equipment overlap—consists of industries whose products have gained and will hold a greatly expanded consuming market. These include electronics, plastics and plywood, aluminum and magnesium, alloy steels and air-conditioning. The war has also given a probably lasting lift to prefabricated housing techniques; also to powder metallurgy.

Last we come to the outright war group — tanks, guns, naval ships, range finders, ammunition, etc. Here there is no non-Governmental demand in prospect, except for relatively unimportant volumes of blasting explosives and economically trifling volume in guns and ammunition for hunting or sports use. The Government owns virtually all of the expanded producing capacity. Volume after the war will depend upon how rapidly the arms program is tapered off and subsequently upon the maintenance, or modernization needs, of our permanent defense establishment—the size and needs of which over a period of years is anyone's guess at present. In this general class there is the least feasibility of converting plant capacity to non-war needs, so that the eventual question is how much plant will be scrapped, how much maintained in stand-by condition. The answer is of little direct investment interest. For instance, what will happen to the tank arsenal operated by Chrysler Corporation, for the Government, is a negligible question so far as concerns this company's post-war volume prospect and the value of its stock.

IV

Government plant ownership is naturally, largest in those fields where chance is lowest for post-war conversion or for full use of the new capacity. Thus, Federal money has financed over 99 per cent of plant expansion for explosives and shell loading; 96 per cent for shipbuilding; 93 per cent for aircraft. In contrast, the percentage is 71 for steel and iron, 64 for machinery and electrical equipment, 56 for machine tools and 41 for petroleum and coal products.

In dollar figures, according to latest available data, the Government had put approximately $4.5 billions into ordnance plants; $3 billion in aircraft plants; $2 billion in shipyards; $3.5 billion in facilities for steel, synthetic rubber, aluminum, magnesium, aviation gasoline and other materials.

With the exception of oil and chemicals, common stocks in the industries that now have an important Federal-plant situation have always been speculative in more than average degree for cyclical or other reasons. Uncertainty as to how Government capacity will be disposed of or used—subject probably to more or less political agitation — becomes an added speculative factor. No doubt that is one reason why so many such stocks have been persistent market laggards.

Increased Plant Account

Aside from Government-plant, there has been a substantial corporate-financed plant investment in steel and in machinery and machine tool capacity. The uneasiness over surplus plant capacity after the war may or may not be exaggerated—I think it probably *is* exaggerated — but as an adverse factor (for an unpredictable time) in investment and speculative psychology it can not be ignored.

In the conversion period the financial strength — or weakness—of war-active companies will depend upon a number of factors, some of which are presently uncertain. The cash and the net working capital—also the various "special" reserves — shown on a balance sheet at the end of the war may look very imposing, as compared with pre-war balance sheet figures—yet be no guarantee at all of actual financial strength. The solvency of a corporation depends upon its cash position, the value *and liquidity* of its inventories and bills receivable, the amount of its obligations for taxes and bills payable, and, finally, its ability to obtain bank credit.

The huge and continuous flow of Government cash is the dynamic factor. When it tapers off as war contracts are progressively cancelled, war-swollen enterprises will be faced with a working capital problem. Previous accumulation of the most conservative possible reserve of cash will come in handy — but, on the whole, the seriousness of the working capital problem will depend very largely upon the speed and equity with which the Government concludes final settlement of accounts with war contractors and upon the availability of interim credit arrangement, with or without Federal guarantee.

At best, settlement of accounts with the Government — contract cancellations may total as much as, say, $75 billions against a tenth as much after World War I—will be a tremendous, time-consuming job. To cite one very small, but illuminating instance, a certain $6 million contract was cancelled by the War Department in the autumn of 1942. More than four months passed before Federal auditors completed checking the books of this contractor, after which the books of some 20-sub-contractors had to be audited—so that six months after cancellation the final settlement had not been finished.

In the interest of orderly and effective industrial transition to peace, it is of the utmost importance that the Administration make specific plans now to simplify and expedite so far as possible all the "paper work" involved in contract settlements, physical reconversion, etc., as well as otherwise safeguard the credit status of war contractors and sub-contractors.

On the whole, however, it is probable that earlier fears of a wave of "working capital casualties" in the transitional period will prove to have been either unfounded or much exaggerated. I

am confident the political temper of the times will assure just and reasonable Government treatment of the corporations whose war production performance has been so magnificent, and that necessary and valid credit arrangements will be available during the unavoidably extensive period of working out final contract settlements.

The "Cushions"

Moreover the "cushions" provided by, or inherent in, existing corporate taxes will tend to stabilize earnings in the transition period — and therefore aid in maintaining financial soundness —much more greatly than most investors realize. These need be only briefly summarized:

(1) The effect of an 80 per cent ceiling on corporate taxes is of itself to limit sharply net income fluctuations. Only 20 per cent of an increase *or decrease* in net before taxes comes through to net income. Even where corporations are not subject to excess profits tax, the Treasury absorbs 40 per cent of an increase or decrease in pre-tax earnings. There seems virtually no chance that the 80 per cent effective ceiling will be raised, though normal and surtax rate combined may be raised to 45 or 50 per cent, from present 40 per cent. This would not importantly affect the types of companies about whose post-war prospects investors are now most concerned. On the contrary, it would most affect some of the now popular "peace stocks."

(2) Most war-active companies by the end of *this year* will have accumulated rather large claims to post-war tax refunds, amounting to 10 per cent of excess profits tax payments on 1942 and 1943 earnings. In the accompanying table the approximate total refund, as of the end of 1943, is presented for 16 representative war-producers and 4 representative "peace stocks." The calculations are based on balance sheet data for the year 1942 and estimates for the current year. In some cases these refundable sums by the end of 1943 will approximate a full year's net income at 1942 levels. That appears to be true, for example, of Bethelem Steel, American Locomotive, Eaton Manufacturing Company, Chicago Pneumatic Tool, and National Acme. Among most of the others tabulated, the amount is equal to anywhere from 50 per cent to 90 per cent of a full year's net income at 1942 rate. In the case of quite a few "non-war" companies, it equals from a sixth to a third of a year's net income.

(3) Probably more important than the EPT refunds—though not subject to any advance calculation—is the tax relief adjustment provided for corporations under section 204 of the Revenue Act of 1942. Briefly, it works like this: If a corporation has a

poor year in 1944 it may apply its unused excess profits tax credit for that year against the excess profits on which taxes were paid in either of the two preceding years—that is, 1943 or 1942—thus recapturing substantial amounts of taxes previously paid. This provision saved General Motors approximately $28,000,000 on 1942 taxes, since in that year of conversion to war work it had subnormal earnings. It would save vital sums of actual cash to any war-contractor whose business slumped after the war.

In the abstract, a very logical case can be made out for "peace stocks" as against "war stocks"; but investment policy is — or should be — a concrete matter. The so-called war stocks—a great majority of which were making at least some money, often pretty good money, for many years before the war—are much more depressed in price than the popular "peace stocks," which have been leading the bull market for more than a year and which in many instances probably will be found, when the war ends, to have over-discounted post-war prospects for a goodly time ahead. The concrete question that the investment holder must answer to his own satisfaction is whether the price differential, founded partly on realities and partly on "mob psychology," is or is not excessive.

Of course, it does not pay to buck the popular consensus prematurely—but neither does it pay to follow it to extremity. As a general rule, it seems late in the day to get indiscriminately bearish on "war stocks" and indiscriminately bullish on "peace stocks." It will be well to regard these loose labels with a questioning mind and concentrate on the *individual* advantages—or disadvantages—attaching to the stock you hold or ponder buying.

Reappraisal of the Rails

(*Continued from page* 308)

been strengthened. The better grade issues will also have improved their position. Louisville and Nashville will have reduced its charges by over $1 million in the past five years, or approximately $1 per share; Great Northern, including savings of interest on bonds currently being called, will have reduced charges $6.5 million or over $2 per share; Atchison, including retirement of California Arizona 4½s, will have reduced charges by $2.5 million or over $1 per share; and even Pennsylvania, handicapped in its debt retirement program through need of large expenditures to complete the electrification of its main line west of Harrisburg, and south to Washington, reduced charges some $3.5 million or slightly over $0.25 per share. Even without further continuation of the war, these companies have done a fine job in reducing debt, and improving the position of their equities; should the war continue well into 1944, further debt retirement with subsequent further strengthening of this equity position is virtually assured.

However greatest discrimination is necessary in the case of the so-called marginal or borderline roads. There are two groups of securities within this classification: (1) those who have already gone a long way in building up cash and/or retiring sizable amounts of debt, thus bolstering their credit status, even assuming cessation of hostilities in the relatively near future, and (2) those roads whose financial burden is such that it seems unlikely that, even were the war to continue well into 1944, their credit would ever be restored. In the first segment of this group are Suothern Railway and Southern Pacific, both of which have already been mentioned, and possibly both Burlington and Texas & Pacific—though not to be the same degree as the Southern and the Southern Pacific. The second group consists of such roads as New York Central, Atlantic Coast Line, Kansas City Southern, Nickel Plate (large preferred stock arrears), Northern Pacific, Pere Marquette (large preferred stock arrears), Baltimore & Ohio, Illinois Central and Katy. This does not purport to be an all inclusive list but is typical of what we have in mind.

Last group is the reorganized roads, as well as those undergoing reorganization with plans approaching the consummation stage. Possessing advantages of Capital Funds (from 2 to 3% of gross), and Sinking Funds (½ of 1% of total issue outstanding) some of these reorganized equities may well be entitled to ratings higher than justified by their current prices. Yet on the whole, most reorganization equities are far away from the property, hence pretty thin, and even admitting that capitalization was reduced drastically in the reorganization process, great study and selectivity is needed in this group, even as in the borderline equities. The desirable equities are relatively few in number, Erie, Gulf Mobile, and possibly Western Pacific and Soo, both of which have a residual value since both roads are "re-organization proof"—with no fixed charges to be outstanding subsequent to reorganization. (Western Pacific has planned to issue a new mortgage issue but it appears that this issue will be paid off immediately following emergence from reorganization, leaving the road

free of any fixed charges whatever.)

However, we must again emphasize the importance of the length of the war and the incidence of cash. For as of March 31st, 1943, gross free cash of the Atchison totaled $63 million; Coast Line, $16 million; Baltimore & Ohio, $31 million; Illinois Central, $31 million; Great Northern, $21 million; Louisville & Nashville, $30 million; New York Central, $72 million; Northern Pacific, $37 million; Pennsylvania, $101 million; Southern Pacific, $81 million; Southern Railway, $18 million, and Union Pacific, $80 million. In the case of the reorganization roads, this showing is even more impressive, St. Paul having $68 million; Northwestern, $73 million; Missouri Pacific, $83 million; New Haven, $35 million; Frisco, $24 million; Rock Island, $40 million; Seaboard, $28 million, and Western Pacific, $11 million. For as previously indicated, the longer the war lasts, the larger the cash balances, and it is only from such cash balances that debt can be retired. Therefore, the investor must first decide for himself as to how long he thinks the current conflict will last; then he must study the cash position of each individual road and project the amount of probable debt reduction that can be affected. In the last analysis, this is the test as to whether or not any particular equity has potential value for either retention or repurchase subsequent to the sharp reaction incidental to the development of a "peace psychology."

Caution is necessary at this juncture since the development of peace psychology would in all likelihood provide a severe jolt marketwise. Decline is not apt to go far, however, since the market has not been too liberal in appraising railroad earning power under war conditions. After taking into consideration the probable length of the war and the incidence of cash, selling should be concentrated in certain borderline equities as well as those of the reorganized carriers. Selective new purchases should await more opportune price levels on reaction.

As I See It!

(Continued from page 277)

beyond even the present high levels and under these circumstances equity values in plant and productive equipment must continue to increase in value and in price. This being so, the United States will emerge from the war as the most powerful nation on earth.

That $8 Pound

Discussion of the $8 pound, therefore, is without a reasonably logical base. All we can say for it is that it represents the price at which "hot" Axis-held dollars are selling on the black markets without regard to their true value. In responsible circles, where prices are really established and accepted, the dollar is priced at $4 to the British pound. In this connection it is well to remember that the parity price of $74.80 for gold in Bombay is equivalent to 18 pounds Sterling a fine ounce, or at the same parity of $4 now prevailing. It is also significant that British securities are selling at about a sixth more in London than in New York; this implicitly ratifies a parity of $3.46—a far cry indeed from $8! These figures represent a responsible attempt at equilibrium between the values of the United States as compared with those of the British Empire.

Those in London who have urged that the pound be valued at $8, because they considered that our lease-lend activities had reduced our assets and by implication strengthened the monetary status of the United Kingdom and many of the Dominions, are presenting an entirely fallacious premise. Actually the amount of our lease-lend is small in comparison with our assets—but high when compared to British assets. All in all we have sent about $4,000,000,000 worth of lease-lend aid to Britain, while British lease-lend in return has amounted to about $1,500,000,000. On the other hand our capital investments have greatly increased, while the permanent capital losses inflicted on Britain in the Far East, and elsewhere, have been enormous. Of additional importance is the weakening of her creditor position against India, the Empire, the United States and the Argentine, where British funds previously were heavily invested. It is well to remember

that in the past Britain has purchased goods partly with her income and partly with her exports: that, as a result of the war, she has lost considerable income which will affect her purchasing power after the war, and change her economic position.

These are basic facts which have not been properly evaluated by those who have campaigned for an $8 pound. That Britain will find means of recouping some of her losses in Africa is very evident but, at the same time, the United States is bound to broaden her export position as a result of victory.

We can assume that the British will seek to maintain their position wherever possible. London holds great reservoirs of deposits and we can expect that every means will be employed to exert pressure on these assets but, ultimately, she must settle at a real economic level — and that means the pound at less than present parities to the dollar. Therefore, the United States must not in any way be stampeded into taking action other than that which accords with the true facts and a realistic appraisal of the whole situation, which must include a careful working out of our respective spheres in the economic world after the war, with gold as the base for currency and credit.

Post-War Competitive Trends

(*Continued from page* 287)

post-war demand will probably be good, the company most likely will be forced back to a marginal position once boom conditions are over. Servel, maker of the electrolux (gas operated) refrigerator, has done somewhat better. Its product is popular in the natural gas area and the company has an efficient sales organization, kept intact during the war. While prospects are fair, competition will hold down margins and growth possibilities are not impressive.

Air-conditioning, in the post-war era, is expected finally to come of age. Thus far, it was a pioneer industry and as such little productive of profits. In the years to come, it should have vast possibilities but in this field, too, lines have already formed which heavily favor the larger companies. Carrier Corp., a pioneer in air-conditioning has developed a wide range of equipment although originally specializing in industrial and heavy installations. Its future growth will lie in the marketing of progressively lower-priced standardized units. Though in on the ground floor, the company has yet to demonstrate whether it can compete successfully with General Motors, General Electric, Chrysler, American Radiator and others. While carrying on extensive research, the company's financial position is somewhat restricted. This may hamper cultivation of the large market presumably available in the residential field where ability to compete and reduce initial costs of equipment will be the determining factor for success. Considering this, it appears that the advantage lies rather with the larger companies, ever more active in this promising field; competition however will be keen.

Equally competitive is the field of heating equipment; but two companies, Holland Furnace and Iron Fireman should make a better than average showing. Both are leading makers of automatic stoking equipment which due to the war-induced switch from oil to coal heating is finding a rapidly growing market. This trend should continue after the war and offer excellent opportunities. Both are also important factors in space heating equipment, oil and gas burners. Holland Furnace additionally makes two types of air-conditioners, one in conjunction with a warm-air heating system. It should find an increasingly valuable outlet in the residential field where automatic stokers too have a large untapped market, only 810,000 units being in operation at the end of 1940. Florence Stove and Kalamazoo Stove, important makers of cooking and heating equipment should also profit from post-war demand. Sears is an important outlet for Florence Stove Co.'s products but the markets of Kalamazoo Stove Co. are mostly rural. While the latter has done not too well prior to the war, it should profit from the sharp increase in agricultural purchasing power.

In the radio field the post-war era may be expected to witness further crystallization of trends hitherto observed, that is more rather than less concentration with the result that the field at last may become somewhat more profitable—for the major factors. Thus far, despite tremendous expansion almost to the saturation point, it was peculiarly barren of returns. First heavy overhead occasioned by the rapid expansion process and large development costs, then fierce competition saw to that. The record of Radio Corp., leader in the field, is well known. Out of the large number of companies originally in the field, only few survived. Even fewer managed to pay moderate dividends. Besides Radio Corp., only Philco, Crosley and Zenith and a very few others emerged as paying propositions but all are still far from having reached investment maturity. The advent of television and electronics is injecting another competitive element which bids fair to compromise the earnings potentialities finally chrystallizing in the radio field proper.

Let us hope that post-war competition will be on a different plane than the deadly battle during the last decade or longer. Increasingly freed of debt and fixed charges, RCA, at any rate, should begin to reap the reward of the patient pioneer and capitalize on its extensive research and development work. Philco and Zenith should also strengthen their position while the outlook for Crosley, in view of its small resources, does not appear too promising. Besides radio, all of the smaller companies are engaged in other fields such as air-conditioning (Philco, Crosley), electric appliances (Crosley, Zenith) and storage batteries (Philco, Zenith). Such diversification will stand them in good stead when the post-war going in radio should get tough. Everything considered, RCA and Philco

should make the best progress and introduction of television, affording higher margins, should bolster earnings all around unless ruinous price wars crop up. However, invasion of the radio field by such giants as GE, Westinghouse, even General Motors, is a factor not to be ignored in appraising the outlook.

With the return of the automobile assembly line, the tire industry, now exclusively in war work, will revert to its role as an important supplier of consumer durable goods. Demand no doubt will be staggering which should alleviate the strongly competitive situation characteristic of the industry in pre-war days. One important factor, price, and its effect on sales, cannot be foreseen today as it is impossible to say whether natural or synthetic rubber will be the raw material of the future. However, in price as well as in the matter of raw material supply, all companies are likely to be in the same position, and in that respect fairly evenly matched for the struggle ahead. In other respects, however, there exist certain differentials. U. S. Rubber, due to the du Pont influence, is probably the outstanding example of efficiency in the rubber industry. Additionally, as a result of its tie-up with du Pont-General Motors, it is the principal supplier of the latter, an important advantage. Firestone and Goodyear, by greater decentralization of their plant operations, enjoy a cost-advantage over Goodrich whose operations still largely center in the high-wage district of Akron. Through operating efficiencies, Goodrich of late has overcome part of this disadvantage which was responsible for restricted earnings in the past. Should synthetic rubber become the future raw material, an element of stability, hitherto lacking, would enter the tire situation which should vastly improve the future status of all companies and do away with the threat of heavy inventory losses of the past. In the immediate post-war period, due to the huge demand, tire price wars appear pretty much out of the question; this should particularly benefit Goodyear, despite diversification

efforts still primarily a tire maker (75% of output) while Firestone's stable earning power, due to manufacture of a wide list of mechanical rubber goods, should be further enhanced.

Floor coverings, another important consumer durable goods field, have interesting post-war possibilities. Past competitive trends within this group, that is between hard-surfaced and soft-pile floor coverings, represented competition between commodities rather than anything else. The hard-surfaced coverings which lost ground during the twenties, since 1929 have gained over their less durable rival, according to earnings trends. In fact, the makers of hard surfaced coverings had a relatively good depression record and no group of manufacturers showed greater ability to overcome adversity than those friendly enemies, Armstrong Cork and Congoleum-Nairn. Now affected by war restrictions, their prospects of a vigorous post-war comeback are excellent, as are those for the rug and carpet makers of which Bigelow-Sanford and Mohawk Carpet should lead the field. The outlook for Artloom, due to a restricted financial situation, is less promising but greater efficiency from plant modernization may improve prospects.

Typewriter companies, while not strictly makers of consumer durable goods, have invaded the latter field with the expanding demand for portables for home use. This trend which has important potentialities should especially favor Royal Typewriter and in lesser degrees Smith-Corona which also successfully cultivated this field.

In sizing up the post-war outlook, it must be borne in mind that most industries, but in the first instance the automotive, refrigerator and office equipment manufacturers, face engineering and governmental problems in resuming civilian production; a good many also face difficult market problems connected with the rebuilding of their sales or dealer organizations. These factors may weigh heavily for or against any given company but for obvious reasons cannot at this time be given proper value. There is another important imponderable. It comprises the effects of war-born improvements of any given product, possible changes in distribution method and/or price policy. From the standpoint of competition, it is already clear that spurred on by their war production experiences, or simply by the necessity to diversify in order to survive, many concerns will be reaching out of their established lines of business to fight for a share of other markets.

All this places a premium of differential advantages which

cannot always be brought out by statistical analysis, such as flexibility in reconverting or switching to other fields. At the same time, investment analysis cannot predetermine the wisdom of an expansion program for a given management under any given set of conditions, not even boom conditions. At most, it can be stressed that expansion is more safely financed without recourse to borrowed funds. This tends to show that constant watchfulness will be required of the investor as the post-war outlook is assuming sharper outline. While the potentialities, as they appear today, have been fairly well discounted marketwise, they are always subject to change. This should never be lost sight of.

The Steel Industry Marketwise

(*Continued from page* 303)

almost no resemblance to the crude production of 25 years ago, the impact of fairly inelastic costs means that for all except the specialty producers, the investor must keep his attention fixed primarily on volume, the key to profits. Technical advances, however impressive, are not quite so important as in most other industry.

Among steel stocks in a specially favored position, Inland ranks high. Although the war has shifted emphasis from its light steel production to plates for shipbuilding, its peacetime earning ratio to invested capital is the decisive element for appreciation. In 1935-9 it averaged over 8%, better than the group, and its wartime gains make its earning future still brighter. It is undervalued on a price-earnings ratio compared to other steel stocks. Alleghany-Ludlum, limited to alloy steels and specialties, will meet post-war competition in these fields with a new product, Pluramelt, in which carbon steels are surfaced with high alloy steels. Since this product remains unaffected when in use by any variable factors, its dependability assures it a wide market at good prices, especially in auto manufacture. Dependability in processing is so desirable as to receive a good premium. Its quotations have shown good resistance, even in poor stock markets.

Acme Steel is extremely efficient, very well co-ordinated, specializing in strip steels and a long line of specialties, in which skilled labor is essential. As 50% of its normal business is in the automobile industry, if the contemplated revival takes place in car production, it should earn more than in 1939, when it made $5.82. Short of bad automobile production, there seems little reason to expect that its average earnings will not be more than the $6 average indicated for six peace years, except for 1938. The floating supply of the stock is small, as the management clings to its large holdings; on the face of it, a favorable sign.

National Steel is a large producer, whose 1939 peace business grossed 132 millions. It has had less wartime expansion than any large producer, and it is in the most advantageous position to fabricate light steel cheaply, in peace, without too much dislocation. It has a good container trade (about 20%) and it has added greatly to its properties, being distinguished for consistent technical progressiveness. Even in the 1938 dip it fared better, relatively, than any large producer. Peace earning power, on the basis of then demand, was over $6; prospects seem reasonable for post-war earnings somewhat higher.

Rustless is typical of the stainless producers. A large part of its capital is owned by American Rolling Mills. Stainless Steel is certain to increase in use, secularly, in the arts, in construction, in razor blades and other delicate steel uses; certainly in surgery, medical and dental. It is climbing as an earner: its pre-war net was on the thin side, but it shows steady improvement. It has special processes for stainless steel, which are increasing the popularity of its production.

Among the old heavy producers, Bethlehem has been most affected by the war, since plate making for shipbuilding is its forte. While it can depend on structural steel to counterbalance the shipbuilding loss, yet as its integration is less than U. S. Steel, it lacks comparative war-peace transition attractions. It will, however, be a good earner in a building revival, though not so spectacular as in wartime. Pessimism is overdone, because the slump in billings will look theatrical when the war is over (for some time, that is). At a ratio of less than ten times pre-war earnings, say, on an estimate of not more than $5 a share, it always has possibilities. Above that it is a wager on the continuance of shipbuilding contracts, primarily.

Youngstown, by veering more into pipe production has a better profit margin, and may recover more easily among the heavy producers. Jones & Laughlin, with its really extreme high ratio of capital to sales and permanently high overhead costs, is a direct expression of heavy steel volume. But its ordnance work is temporary and, despite the Otis Steel acquisition, the peacetime earnings record, is so unimpressive that it is the least attractive in its group. The ratio of present price to peace earnings is still rather high.

In face of the post-war perspectives and wartime earning power (even if reduced by renegotiation and taxes) the steel and iron industry as a whole has been undervalued with reference to other groups and it presents many investment possibilities. It has survived prophecies of disaster from everything from original watered stock to scrap steel, from obsolesence to substituted materials, from the threats of insolvency to a really topnotch capital position. It will probably show that its longterm earning power has also been wrongly appraised by the stock market of June, 1943. If you think the market consensus is infallible, I remind you of how wrong was the optimistic majority of 1929 and the pessimistic majority of June, 1932.

Market Status of Chemical Stocks

(*Continued from page* 295)

not continue and which have been analyzed above.

Relative to industry as a whole, chemicals earned more. The 916 industrial companies usually cited, earned 3.7 billions in 1929, or 23 times what the chemical companies earned. In 1932, American industry produced an actual slight deficit, while chemicals still earned something. By 1937 general industrial earnings were 2.9 billions, still well under 1929, while chemical earnings were 1 to 17 as against total industry, a marked gain from the 1 to 23 ratio at the top of the former cycle. Between two earnings summits, chemicals had risen relatively by nearly a third. But in 1940, the last year fundamentally on a peace basis, chemical earnings were 1 to 17 equally, so that the permanent improvement seems confirmed. That it sank to almost the old ratio later on is not relevant. For most industries, capital and materials were largely government supplied for needed expansion, whereas the chemical industry was nearly entirely self-financing.

Like the Man from Mars, let us ask what an investor should have paid as a premium above the market, for what we now know really occurred. Suppose that, in the first year of recovery (1934) he had to chose between chemical stocks and industrial stocks in general. From 1934 to 1940 inclusive, for seven years, he could have paid on the following basis:

In those seven years, ordinary industrials that earned 1.2 billions at the commencement of the period, earned 14.8 billions in that time. Chemicals that earned 101 millions at the beginning, earned 969 millions in the same time. Chemicals justified anticipation by 9.58 to 1, industrials by 12.33 to 1. Had the investor to choose in 1934, the chemical stocks would have deserved a discount, not a premium. In other words, since the great depression ordinary industrials have gained more in long term earning power than the chemicals. Hence the improvement in the ratio of chemicals to general industry was obtained during a depression and not during a growth period all around.

It is clear that the investor ought to pay a premium for chemicals if he sees a recession in business ahead. But then he might not wish to invest at all: certainly that would be the wiser policy. There is nothing in post-crisis experience to show that the chemical industry as a whole deserves a premium. The investor must not choose blindly on the basis of the group, but has the same painful duty of individual company analysis that he has elsewhere. Many of the chemical companies have done brilliantly better than their group or than the market, but then that is also true of varying companies in many other industries.

The query as to the future is harder to answer. No projection, whether by the Department of Commerce or by the National Resources planners, has as yet been specific as to chemicals. If construction increases as quickly as indicated, then paints and varnishes have an exceptional future. If female clothing rises less than average, as the planners think, then rayon demand is not likely to be quite as brilliant as has been anticipated. Chemicals primarily serve other consumer industries, and like any intermediate grouping, their group position can be little better than industry as a whole, which they serve, and special situations must be looked for, as say, with the use of naval stores, so long static in sales, as a popular base for organic chemistry.

There are other factors to appraise. Dividends paid by leading chemical companies averaged about $3.25 per annum in 1934-1940. Their net working capital rose by about a fourth in that period. Their net plant and property rose by about a fifth. For the leading chemical stocks in question, the median price for 1934 (adjusted for split-ups) was $87.20. The dividend yield for seven years worked out at 3.84%. That was below the average yield of bonds with A ratings throughout the period, and below the industrial yields average throughout. Neither net property gains nor working capital were more impressive than the average. Hence, although chemicals are among the first of growth industries, their best companies excellently managed, are of high quality, and many have extraordinary promise, the fact is (part from wishful thinking that their new expressions will make a "leap" into altogether exceptional profit areas), that sober experience indicates that in periods of business expansion, since the chemical industry attained maturity, its stocks should sell only at individual premiums, not because they are chemical stocks but because of their specific possibilities.

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